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Supreme Court of the United States

OCTOBER TERM, 1946

No. 89

THE UNITED STATES OF AMERICA,
Appellant,

v.

NATIONAL LEAD COMPANY, TITAN COMPANY, INC., and E. I. DU PONT DE NEMOURS AND COMPANY,
Appellees.

APPEAL FROM THE DISTRICT COURT OF THE UNITED STATES FOR THE SOUTHERN DISTRICT OF NEW YORK

APPELLEE DU PONT'S BRIEF

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January, 1947.

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CASES CITED

APPELLEE DU PONT'S BRIEF

DU PONT'S POSITION AS TO THE DECREE, ASSUMING AFFIRMANCE ON THE MERITS.

The first sentence of the government's "ARGUMENT" in its brief in No. 89 (47)[1] gives its theory of "The Function of an Antitrust Judgment" as follows:

> "Each case under the Sherman Act stands upon its own facts and the judgment must be moulded to the exigencies of the particular case".

We unreservedly accept this. But the short answer to all of the arguments in the government brief is that the government had no sooner stated this correct rule than it abandoned it, for all the rest of the government brief consists of advocacy of what it calls "general principles" (e. g. 49) which it soon becomes evident that the government would apply to *any* anti-trust case involving patents. We shall, on the other hand, discuss the relief appropriate to the facts in *this* case and to the traditional objectives of an anti-trust decree.

Du Pont's position is this:

(1) The decision against it should be reversed on the merits. (This is argued in du Pont's original brief in No. 91, and we need not repeat the arguments here.) We submit, however, that even if our appeal in No. 91 be denied, we have at least shown that du Pont's record in respect of titanium patents has been so beneficial to competition and lacking in harm to consumers that that must be taken into consideration in framing the decree.

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[1]Reference numbers in parentheses are to the pages of the government brief.

(2) As the *Hartford-Empire* case, 323 U. S. 386, was decided only two years ago, and no *new* reasons have arisen to support its being overruled, it should now be sustained. The government's principal argument is that it is impossible ("unworkable") for Courts to determine the reasonableness of a royalty; but the one *new* event that has arisen since the *Hartford-Empire* case is that Congress has expressly enacted that the Courts *shall* in a proper case determine what is "a reasonable royalty", Public L. 587, 79th Cong., 2d Sess., approved August 1, 1946. Indeed, this is declaratory of what has always been the rule, *viz.*, that courts may determine a reasonable royalty in patent infringement suits. *Dowagiac Manufacturing Company* v. *Minnesota Moline Plow Company*, 235 U. S. 641, 648. See also *The Suffolk Company* v. *Hayden*, 70 U. S. 315, 320. To conform the relief in this case to that in the *Hartford-Empire* case, the decree below would be affirmed, except for the modification of striking out the compulsory disclosure of technical information (considered in Part Two of du Pont's brief in No. 91).

(3) Assuming *arguendo* that this Court should now determine that it wishes to overrule the *Hartford-Empire* case, and to hold that there is power in the Court to order royalty-free licensing, then du Pont submits

(a) That at least this should not apply to future patents. [Indeed, the government does not even ask it in respect of future patents.]

(b) Nor should it apply in du Pont's situation even to existing patents, as there is no reason why the fact that the Court elects to terminate the system of judicial supervision of the reasonableness of royalties should result in its adopting the extreme concept of confisca-

tion. At least in a case so favorable on the facts as the present, the Court should exercise its discretion to confine relief to what has been called the relief "ordinarily" applicable in anti-trust cases: issuance of an injunction.

Du Pont's position may be illustrated and expanded by reference to three different types of patent claims: past, present and future.

(a) Past Infringement

Du Pont accepts the provision in the decree enjoining it from bringing any action for infringement prior to the date of the decree since, as far as it is aware, all producers in the United States have been licensed under its patents (R. 315).[2]

Actually, we think that, under the facts of this particular case, the District Court went too far. As it had found that du Pont had never refused a license, that du Pont had licensed newcomers as far back as 1935 and 1937, and that du Pont had never collaborated with National Lead in the granting of licenses, we see no genuine or technical reason why it was necessary to the effectiveness of the anti-trust decree in this case to deprive du Pont of all rights to recovery for patent infringement prior to this date. Acquiescence in that provision, and the District Court's exercise of the power to make it, surely represents

[2]The record in the present case consists of two volumes containing the proceedings below which run from pages 1 through 1289 and four volumes of exhibits which run from pages 1 through 4399. "R." references are to the volumes containing the proceedings below and "Ex. R." references are to the volumes of exhibits.

the maximum of taking of du Pont's property which is justified on this record.

(b) Future Patents

The District Court's view was that the provisions for reasonable royalty could properly extend to patents issued within five years subsequent to the date of the decree (R. 313). The government assigned no error to this provision, and even the government's motion in this Court for leave to amend its assignments does not attack this provision. The assignment of error by the government limits its application to "existing titanium pigment patents" (R. 330). The government must thus be taken to have conceded that a reasonable royalty provision is appropriate in this decree covering future patents issuing over the next five years, and that it was proper for this decree to make no provision as to the licensing of patents issuing after five years.

Du Pont takes two alternative positions on this subject of future patents (issuing in the five year period).

First, du Pont submits that it is unsound in principle to include *any* compulsory licensing provision in respect of patents to issue in the future. The future will be free of anti-trust violation, for it is the function of the decree to make it so.

Alternatively, *second,* du Pont submits that if compulsory licensing of future patents is to be ordered, it must at least be (as in the District Court decree) for a reasonable royalty.

And this, as we have said, is conceded by the government. That concession undermines and destroys the greater part of the government's argument in this case. The backbone of that argument (in respect of *present* patents)

is that the Courts are *incompetent* to administer any system of reasonable royalties; that such Court administration would be "unworkable". That whole thesis falls to the ground when it is realized that the government concedes that it is workable in respect to future patents. The government thesis is also in direct conflict with the Congressional directive that the Courts *shall* determine reasonable royalties in proper cases, Public L. 587, 79th Cong., *supra,* and with the practice of the Courts in patent infringement cases. *Dowagiac* and *Suffolk* cases, *supra.*

(c) Present Patents

The onslaught which the government makes on the *Hartford-Empire* case has application only in this field of present patents. When it is realized that the government is dealing only with present patents,—excluding past infringement and excluding all future patents,—it becomes readily evident that the government has pitched its tone too high.

The government wishes this Court now to say that it was wrong in the *Hartford-Empire* case to direct that reasonable royalties might be reserved for present patents but, at the same time, the government is ready to concede that this Court was right in the *Hartford-Empire* case in its disposition of past infringement (restraining suits therefor) and in its disposition for future patents (permitting reasonable royalty therefor). But we do not find in the entire government brief any argument as to why the *Hartford-Empire* case was wrong in one particular, while right in the others. Throughout the onslaught on the *Hartford-Empire* case in the government brief, that decision is treated as a unit.

Du Pont will of course argue in this brief that the *Hartford-Empire* decision was sound and should not be overruled.

But even if *arguendo* the *Hartford-Empire* case may come to be overruled or limited in a case involving similar facts, du Pont submits that it is quite unnecessary to take up that delicate question in this case, because here the facts are so much more favorable to du Pont.

COMMENT ON THE GOVERNMENT'S HANDLING OF THE FACTS.

Before turning to our Argument, we wish to make brief reference to two fundamental respects in which we think that the government's statements and assumptions of fact are constantly distorted.[3]

(1) In this case there are practically no facts whatever in regard to which it can be said that the generic phrase "the defendants" should be properly used. In all of the factual 94 findings of the Judge, he used the phrase "the defendants" (as distinct from identification of the particular defendants in the particular findings). only 3 times (FF 1, 94, 96; R. 235, 303, 306). In contrast to this, the government has used the phrase "the defendants" in its brief 170 times. There is substantive point in the contrast. The Judge appreciated who were parties to each act or transaction and identified them; what he really found, and what was, of course, true as a fact, was that National Lead and du Pont were not jointly engaged in any of the acts or transactions.

[3]Other criticisms of the government's handling of the facts appear in Appendix C to this brief.

The general discussion in the government brief (*e.g.* 49-54) is interlarded with recurrent references to "the defendants" as if they were some *entity*. Doubtless National Lead and Titan may be treated as one.[4] But National Lead and du Pont have never been one; indeed, if there is one thread that runs through the record (as distinct from the government brief), it is the thread of competition, even to the point of animosity, between National Lead and du Pont. That conflict has come right down into the hearings on the decree where the two have been in conflict, and are now in conflict before this Court, on the question of royalty-free licensing.

(2) The government makes no distinction between finding no. 95, which is purely a conclusory or ultimate finding, and the 94 preceding findings, which are findings as to the proof in the record. We wish most strongly to urge upon this Court that a distinction must be drawn between the two types of finding. When a Judge has told the whole story as he sees it in detail over 94 findings, covering 70 pages of a record, as here (R. 234-303), we respectfully submit that, for an appellate court to accept a conclusory finding from a single Judge as entitled to any weight in itself, apart from his manifold detailed findings, would be to undermine the whole validity of the appeal on the facts to which the parties are entitled.

The ultimate finding no. 95 appears at R. 303-306. Wherever this Court finds in the government brief a record reference to those pages, it may know that the government is only relying upon the ultimate finding and has no specific finding to support what it is saying.

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[4] We will not, again, refer to Titan in this brief, as it is a 100% subsidiary of National Lead (FF 5, R. 236).

POINT I.

THE RELIEF GRANTED BY THE DISTRICT COURT WAS MORE THAN ADEQUATE. INDEED, THE RELIEF SHOULD BE LIMITED TO AN INJUNCTION.

The government brief is forced to recognize factors in du Pont's favor which render invalid the conception that "the defendants" are to be lumped as one. Thus, the government recognizes:

That the problem before du Pont in the early days was as to how to get into the industry at all in competition with the already existing cartel (how "to make some arrangement with NL which would permit it [du Pont] to enter the industry") (26);

That du Pont made no agreement with the cartel, but that the case against du Pont must rest on the theory that it was illegal merely to give "assurances" as to its existing intentions, for, says the government, it was "as a result of them" that du Pont "became a party to the worldwide combination" (29);

That as early as 1938 du Pont excluded research and development information from the exchange of information with National Lead (32-33),—thus, nine years before the decree which is about to be "moulded";

That du Pont terminated entirely the exchange of information when the industry became "mature" (32), and that this was in May, 1940,—thus, seven years before the decree which is about to be "moulded";

That there is in fact active competition for customers between National Lead and du Pont, and no

agreement between them as to price identity, but, indeed, that there have been repeated reductions in prices with few increases (34-35);

As to the future, which is the important time from the point of view of the decree, the government recognizes:

That restraint on foreign competition is a dead issue today, for, says the government (52):

"it is demonstrable that there will be either no or negligible competition from them [the foreign producers]. They are located in war-ravaged countries. The record does not show if their plants are in, or can be restored to, production. Furthermore, there is good reason to believe that they will not desire to export in view of their long established policy of non-competition and lack of contacts in this country";

That even during the years before the war there was no realistic chance whatsoever of foreign competition, for at one point the government admits that the United States tariff was 30% ad valorem (10); and then the government itself makes an extended argument (56-59) that a 2% differential in price would be fatal to competition. The government is in the inconsistent position of saying that the foreign competitors could have easily competed against a 30% differential, but that no American company is capable of competing against a 2% differential when the 2% is consideration for actual research investment by its competitor.

It is difficult to imagine a state of facts upon which it could be more clearly said that the classic anti-trust relief of cancellation of the agreements, and an injunction against

entering into like agreements (always necessarily under the sanction that a violation would lead to contempt proceedings), suffices.[5]

The gravamen of the government's argument to the contrary is that there is *power* in the Court to enter whatever decree is necessary "to neutralize unlawfully created and continually operating forces destructive of the interests protected by the Act" (48-49). We agree. To repeat Mr. Justice Rutledge's dissent in the *Hartford-Empire* case, as quoted by the government (49):

> "One may start, *with the Court,* upon the basic idea that, in such a proceeding, the decree's function is not to impose sheer 'punishment' for past misconduct, but is rather to devise effective measures to prevent its repetition and dissipate its consequences".

The question is as to what measures are required on this record.[6]

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[5]We cannot escape the conviction that what the government brief was really written about were not the facts as found after the actual trial in this case, but the facts as the government imagined them at the time that it first commenced the proceedings. The *assumed* facts in the brief,—above all, the constant linking of "the defendants" as if they were one,—bears no resemblance to the opinion or findings of fact by the District Court, but it does bear a certain resemblance to the chapter on "Titanium" in Wendell Berge, *Cartels,* Public Affairs Press, 1943.

[6]The government falls into the error (54-55) of assuming that, because we did not object at the hearing on the decree (R. 1240) to compulsory licensing, we "conceded" that our patents should be licensed. The government says that it was "at the request of the defendants" (55) that the District Court included the provision for a reasonable royalty. But this is no more than to say that if the defendants had to submit to a compulsory licens-

If the Court follows what we submit to be the correct course, *viz.*, striking out of the decree the order against du Pont for compulsory licensing, there is nothing in the record upon which to base any assumption that du Pont will not in fact grant licenses. What there is in the record, justifies the assumption that du Pont will in fact continue to grant licenses in a free competitive system (FF 83, R. 295).

A fortiori, there is nothing in the record to indicate that du Pont's royalties will be more than reasonable.

Let us review what is the actual misconduct found against du Pont.

(1) The only such misconduct was that du Pont gave assurances in 1933 through National Lead to the Germans that it did not then intend to engage in the export trade, and that that assurance encouraged the Germans in some way. The consequences of that action have long since been dissipated, and no measure is required to prevent its repetition. At the most, an injunction would suffice.

(2) Let us go further and suppose for the sake of the argument that it was illegal for du Pont to exchange technical information with National Lead between 1933 and 1940. The government has not introduced one word of evidence to show that this has had any adverse conse-

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ing provision at all, then they requested that it contain a provision for reasonable royalty. We certainly did object to any order of compulsory licensing and assigned error on this point (R. 345) but the argument reported at R. 1240, as well as du Pont's counter proposed form of decree, proceeded on the assumption that there was to be an order for compulsory licensing (*cf.* R. 1241) and was addressed to the question whether it should be royalty-free.

quences upon competition, or that if it has had any such, they have not now been long since dissipated. Zirconium and Virginia Chemical entered the business during the period of the exchange, and the exchange itself has ceased for seven years past. Upon this showing there is nothing to suggest that the parties intend to recommence exchange of technical information and, accordingly, even an injunction seems unnecessary.

(3) Let us go still further and suppose that this Court overrules the *Cracking* case, *United States* v. *Standard Oil Company* (*Indiana*), 283 U. S. 163, and thus holds that it was illegal for du Pont to make its cross-licensing agreement with National Lead. The District Court seems to have the view that this decision ought to be overruled, for it suggested that it is a wrong for two prominent companies not to litigate each other's patents and to cross-license one another under future patents. As explained in our main brief in No. 91, both factors were fully present in the *Cracking* case. If the Court is now to make new law for the future on this subject, we must, of course, accept the consequences in the form of an injunction requiring the agreement to be cancelled and forbidding us to enter into a similar agreement. But again, no reason appears why relief should go any further.

To put it shortly, there has been no substantial evidence in this case that du Pont's patents themselves have been "improperly used" by it. On the assumption that the case is affirmed on the merits, it will have been held that du Pont violated the Sherman Act in giving an assurance that it would not engage in export trade and in thereby encouraging Europeans not to engage in American import trade.

That is the sum and substance of the wrong that the District Judge found, and it provides no justification for any decree ordering the licensing of patents now and in the future.

In asking more, the government is overlooking the fact that du Pont is not in any way united to or cooperating with National Lead. This is the type of case in which an injunction suffices because the injunction would prevent parties, if they ever were together, from coming together again. This case is one, then, to which the government quotation (48) from the *Standard Oil* case, 221 U. S. 1, 77, is apposite:

> "It may be conceded that *ordinarily* where it was found that acts had been done in violation of the statute, adequate measure of relief would result from restraining the doing of such acts in the future. *Swift* v. *United States,* 196 U. S. 375" (Italics ours).

POINT II.

THE COURT IS WITHOUT POWER TO ORDER ROYALTY-FREE LICENSING

(1) Royalty-free Licensing Would Be Inconsistent with the Decisions of this Court.

The government urges that not only should there be compulsory licensing, but that such licensing should be ordered royalty-free as to existing patents.

It is of course self-evident that patents are property like any other property, protected by the Constitution itself and by statute. *Seymour* v. *Osborne,* 11 Wall. 516, 533;

Cammeyer v. *Newton*, 94 U. S. 225, 226; *James* v. *Campbell*, 104 U. S. 356, 357-8; *Hollister* v. *Benedict & Burnham Manufacturing Company*, 113 U. S. 59, 67; *Solomons* v. *United States*, 137 U. S. 342, 346; *William Cramp & Sons Ship & Engine Building Company* v. *International Curtis Marine Turbine Company*, 246 U. S. 28, 39-40; *United States* v. *Dubilier Condenser Corp.*, 289 U. S. 178, 186-7; *Hartford-Empire Company* v. *United States*, 323 U. S. 386, 415.

The patents of a patentee who violates the anti-trust laws—this Court has repeatedly held—are as much property protected by the law as the patents of any other person. Such a patentee—while subject to the remedies specifically provided by the anti-trust laws—does not become an outlaw to be despoiled of all his patent possessions.

In *Standard Sanitary Mfg. Co.* v. *United States*, 226 U. S. 20, for example, patent license agreements were found to have violated the Sherman Act. The question then arose as to the status of the patents so used. The decree answered this question by stating expressly that the patents were not forfeited but should remain enforceable:

> "* * * this decree shall not be construed to prevent whoever may be the owner or owners of the Arrott patent and other dredger patents relating to the manufacture of sanitary enameled ironware, from granting lawful licenses to any of the defendants or others to use such patents, or to prevent the defendants or others from taking lawful licenses to use any of such patents" (Decrees and Judgments in Federal Anti-trust Cases (1918), p. 265).

In *United States* v. *Motion Picture Patents Co.*, 225 Fed. 800 (E. D. Pa.), appeal dismissed 247 U. S. 524,

patent agreements likewise were found to have violated the anti-trust laws. There once more the court refused to forfeit the patents involved. Instead the decree of the court flatly stated that:

> "Nothing in this decree contained shall be construed to prevent whoever may be the owner or owners of the patents relating to the motion picture art named in the pleadings and evidence herein from granting lawful licenses under lawful conditions to any of the defendants or to others, nor to prevent the defendants or others from taking lawful licenses from the owners of said patents. Nothing herein contained shall be construed to prohibit whoever may be the owner of the said patent or patents from collecting royalties in the future from licensees" (Decrees and Judgments in Federal Anti-Trust Cases (1918), pp. 379-380).

Ethyl Gasoline Corp. v. *United States,* 309 U. S. 436, is particularly in point. There (a) certain patents, (b) certain licenses to refiners, and (c) certain fictitious licenses to jobbers, were found to have been used in violation of the anti-trust laws. This Court, however, in no wise ordered confiscation. The patents were left intact; the licenses to refiners were revised by the deletion of objectionable clauses but otherwise left standing; while only the fictitious licenses to jobbers—being disguised resale price maintenance agreements rather than licenses—were stricken down. Accord: *United States* v. *Univis Lens Co.,* 316 U. S. 241.

In short, the courts have no more destroyed patents, when confronted with patent misuse, than they have ordered the destruction of the plants and other physical property of the *Standard Oil* and *Tobacco* aggregations in 221 U. S. 1 and 106. Cf. *United States* v. *Terminal Railroad Asso-*

ciation of St. Louis, 224 U. S. 383, where the defendants had the option *either* of breaking up a monopolistic railroad terminal *or* of compulsory dealing on *reasonably* compensatory terms. They were not required to do both. Accordingly, no forfeiture was involved.

Another argument offered by the government is that the *Hartford-Empire* case is to be distinguished because the licenses there covered rental and servicing of machinery as well (97). The distinction does not hold water, for there were many defendants in that case, to all of whom the decree applied equally, but who were not concerned with rental or servicing of machinery. In fact, this Court clearly stated that the uniform reasonable royalties to be charged might include only a charge for "the use of the patents for the production of glassware on the leased machines", and that each licensee should have the option to determine whether it desired, in addition, to pay for the rental of machinery or the servicing of machines (324 U. S. 573 at 574; and see final judgment entered October 31, 1945, par. 13 (B)).

The government also argues that this Court must have determined in the *Hartford-Empire* case that a court of equity may not order adequate anti-trust relief if the result would be that property values are destroyed (104). But the government misinterprets the decision. The distinction is real between direct confiscation by Court order and an anti-trust decree which incidentally impairs property values. Compulsory licensing at reasonable royalties (as in *Hartford-Empire*), forced sale of assets, cancellation of contract rights, etc. all may involve dilution of property values. Royalty-free licensing, however, involves a declaration that the patent is null and void. The patentee can no longer

utilize the patent for any purpose, past or prospective. It in effect is cancellation of the patent.

The government goes on to argue that "where the lawful portion of the value of defendants' patents cannot be segregated from the value resulting from the unlawful combination, defendants are entitled to no return on the patents" (118). Here again no effort is made to connect the proposition to the facts of this case. No record reference whatsoever is given. Whether or not the 1933 non-exclusive, cross-licensing agreement was unlawful in itself (notwithstanding the *Cracking* case), or whether or not it was vitiated by some contemporary "assurance" given by du Pont on the subject of export trade, it remains undisputed that du Pont was entirely independent in the acquisition of its own patents, and was equally independent in the licensing of them. This is not a case for application of doctrines about "valid parts of an invalid whole" (120), for the patents are "not parts of a whole", but independent property rights in themselves having, under the decisions of this Court, no greater and no less value than attaches to them in their own right.

Rightly interpreted, the decisions of this Court in the modern patent cases, which the government invoked in its review of the present condition of the patent law, are themselves destructive of the government's viewpoint. That viewpoint is that a patent is somehow a combination of itself and of some intangible attribute clinging to it as a result of the history of the manner in which it has been used. But that is just what this Court has held that a patent is not. A patent can derive no extra strength or validity from the manner in which it is used, and correspondingly, its integrity *qua* patent cannot be chipped by extraneous allusions to the manner in which it is claimed to be used. It remains a patent, and no more.

(2) Royalty-free Licensing Would Be Inconsistent with Legislative History Since the *Hartford-Empire* Case

Congress has in fact passed affirmative legislation since the *Hartford-Empire* decision. Public Law 587, 79th Cong., 2d Sess., provides:

> "* * * upon a judgment being rendered in any case for an infringement the complainant shall be entitled to recover general damages which shall be compensation for making, using, or selling the invention, *not less than a reasonable royalty therefor* * * *". (Italics ours.)

This is a mandatory direction to the Federal Courts to determine reasonable royalties. The only way to determine what is "not less than a reasonable royalty" is to determine what is a reasonable royalty.

Legislative action granting courts jurisdiction to forfeit misused patents has been sought both prior and subsequent to the *Hartford-Empire* decision; but the Congress has not approved. The opinion of this Court in the *Hartford-Empire* case summarized much legislative history showing that Congress since 1908 has repeatedly failed to adopt legislation giving power to the Judiciary to cancel patents which have been used as instruments to violate the anti-trust laws (323 U. S. at 416). After the Court's decision was brought to its attention, Congress still refused to act.

Following the decision, bills were introduced in each house of Congress seeking to give Federal Courts specific power to declare patents used in violation of the anti-trust laws null and void (79th Congress, 1st Sess. H. R. 97, 2612 and 3462). Congressman Voorhis, one of the sponsors of the bills, asserted that the necessity for action was

made clear by the decision of this Court in refusing to order royalty-free licensing in the *Hartford-Empire* case. Cong. Rec. January 15, 1945, p. A148, January 16, 1945, p. 296. These bills were not made law.

In response to a request made on June 26, 1946, by the Chairman of the Monopoly Subcommittee of the Committee on Small Business of the House of Representatives, the Attorney General, in commenting on inadequacies in the present anti-trust laws, endorsed H. R. 97 and called attention to the decision in the *Hartford-Empire* case and of the District Court in this case refusing to order royalty-free, compulsory licensing. The Attorney General urged that additional legislative relief was necessary to prevent the collection of royalties under patents used in violation of the Sherman Act. *United States versus Economic Concentration and Monopoly, Report Committee on Small Business,* pursuant H. Res. 64, page 251:

> "Recent cases have also shown the wide use made by monopolistic corporations of patents or aggregations of patents to eliminate competition. It is now settled that the United States in an antitrust case can secure compulsory licensing of patents at a reasonable royalty. In the Hartford-Empire and National Lead cases the relief given by the court covered both present and future patents. In our view, however, this is not sufficient relief to eliminate the effects of an unlawful use of the patents. Patents are granted for a public purpose. We believe that additional relief is necessary to prevent further use of a patent in violation of the antitrust laws and indeed to prevent the monopolist from recovering royalties under his patents. H. R. 97, introduced by Congressman Voorhis, was designed to take care of this situation."

In the present Congress a bill to the same effect introduced by Senator Morse on behalf of himself and seven other senators has been referred for consideration to the Committee on the Judiciary. (80th Congress, 1st Sess., S. 72.) Hearings on the bill are contemplated soon, and thus the proposal will again receive the consideration of Congress.

We submit that this is the type of case in which legislative silence has significance. When a specific decision of the Court having such significant implication in the field of anti-trust policy is called to the attention of the Congress, and Congress fails to act, some considerable degree of approval of the decision may be inferred. Cf. *Cleveland* v. *United States,* this term, decided November 18, 1946.

Indeed, in this case there is more than legislative silence. The subject is currently before Congress. Certainly at this stage the problem is legislative and further judicial declaration would be highly inappropriate.

POINT III.

ROYALTY-FREE LICENSING IS INAPPROPRIATE IN THIS CASE.

(1) Competition Will Flourish Under Reasonable Royalty Licensing.

In considering whether royalty-free licensing should be ordered in this case, the Court will have in mind that one of the primary objectives of an anti-trust decree is to eliminate unlawful restraint which may tend to impair competition. There is no finding or evidence here, however, that the cha.ging of royalties has in any way prevented the development of competition.

Not only did du Pont grant licenses to all applicants, but it charged a fair and reasonable royalty of 2%. Under this royalty, licenses were granted to both Zirconium and Virginia Chemical. These concerns have manufactured titanium pigments over a period of approximately ten years (du Pont's main brief in No. 91, pp. 104-105). Their products have been successfully sold in competition with du Pont and National Lead. The relative position of their manufacturing capacity in the industry has steadily grown. There is substantial evidence that at least one of these companies is now and has for some time been engaged in constructing additional capacity.[7]

It is significant that the government did not call representatives of either of these licensees to testify whether they had any complaint or criticism of the royalty charged.

There is also reason to believe that the reasonable royalty provisions of the decree will not deter the entrance into the industry of new competitors. Only recently a substantial concern, New Jersey Zinc Corporation, requested of du Pont licenses under various titanium pigment patents

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[7]Du Pont offered to prove that additional capacity was being constructed (R. 1246). Applications of the American Cyanamid Company, the parent of Virginia Chemical, to the War Production Board (Serial 140937), and releases of that company published in newspapers and trade journals, establish that it recently acquired a plant for the manufacture of titanium pigments at Gloucester, New Jersey, which was being prepared for the manufacture of 3,000 net tons per month, and that additional capacity was being added at its plant at Piney River Works, Virginia. See American Inkmaker, September 1946, and Chemical & Engineering News, April 25, 1945.

This is not of course in the record. We follow the example of the government (*e. g.* 52) and of National Lead (its brief, p. 40) in keeping the Court of Equity up-to-date on actual developments.

and asked du Pont to quote appropriate royalties. Negotiations and discussions between du Pont and New Jersey Zinc are in progress. This company, which is an important white pigment manufacturer, in fact the largest producer of lithopone (R. 1159, 1171-1172), is presumably familiar with the operating conditions of the industry and qualified by reason of capital and technical personnel to enter the industry.

The government speaks of the duty of this Court "to restore the industry to the free system of competition" (41). The government's use of the verb "restore" shows how it develops its arguments in disregard of the facts of the particular case. The titanium industry is an entirely new industry that was created after World War I, in which the first to enter it in the United States on a commercial scale was National Lead, the second was du Pont (succeeding Commercial Pigments), the third was Zirconium, and the fourth was Virginia Chemical. To "restore" the industry to the condition it was in when du Pont entered it, would be to reinstate the 100% National Lead monopoly.

The government presents a mathematical argument that no royalties should be permitted because that increases the cost of the royalty payer (41, 56). This is a truism equally applicable to every cost. It is not the function of this Court to equalize costs. For all that the record shows, du Pont may well have invested more in research and other cost of developing its patents than any competitor is going to have to pay in royalties for their use. Doubtless, the cost would be a factor that the District Court might take into consideration in fixing the reasonableness of the royalty.

Wherever throughout industry a licensee competes with a licensor, the government could indulge the same rhetoric

to the effect that the royalty is a "double subsidy" to the licensor. The conception that there cannot be competition unless costs are all equalized is naive in the extreme. If Virginia Chemical's plant pays a lower rental than du Pont's, is this Court to change the rentals so that du Pont can be on a competitive equality? If Zirconium pays lower State taxes in Ohio than du Pont does in Maryland or Delaware, is this Court to order Zirconium to pay higher taxes so that the costs may be equal?

(2) There Are No Unduly Onerous Administrative Obligations Placed Upon the Courts by Reasonable Royalty Licensing.

One of the important arguments advanced in the government brief in urging royalty-free licensing is that the Courts lack the *capacity* or *ability* to conduct such administration as may be involved in determining whether a rate of royalty is in fact reasonable (63). The government's expression is that such decrees are "unworkable."

Reference has already been made to what seems the decisive argument against the government's position that Court determination of reasonableness of royalty is unworkable. We refer to the enactment in 1946 of Public Law 587 of the 79th Congress, directing Courts to determine the reasonableness of royalties in patent infringement suits. What the Courts are capable of doing in one type of suit, they are capable of doing in another.

Moreover, the government is really in an impossible position on this issue, as it has not contested the provision for reasonable royalties for future patents. Its original assignment of error on the subject was only to the effect that present patents should be required to be licensed

royalty-free until the effects of the alleged conspiracy had been dissipated (R. 330). By motion in this Court (which we oppose), it is asking leave to amend the assignment so as to require royalty-free licensing of present patents in perpetuity. But not even in this Court has it contested the validity of the provision in the decree for reasonable royalties under future patents.

In any event, it is difficult to understand the government's present contention that courts are without the capacity to administer reasonable royalty licensing, in view of the large number of anti-trust consent decrees which have been approved by the government, both prior and subsequent to the decision in the *Hartford-Empire* case, providing for licensing at reasonable royalties.[8] Pertinent excerpts from these cases are set forth in Appendix B.

[8]These cases include the following: *United States* v. *Standard Oil Co.* (*New Jersey*), C. C. H. Fed. Tr. Reg. Serv. Par. 52,768 (D. N. J. (1942)); *United States* v. *Standard Oil Co.* (*New Jersey*), C. C. H. Fed. Tr. Reg. Serv. Par. 52,927 (D. N. J. Civil Action No. 2091 (1943)); *United States* v. *General Electric Co., Westinghouse Electric & Manufacturing Co.*, C. C. H. Fed. Tr. Reg. Serv. Par. 52,777 (D. N. J. No. 1364 (1942)); *United States* v. *Aluminum Company of America*, C. C. H. Fed. Tr. Reg. Serv. Par. 52,776 (S. D. N. Y. (1942)); *United States* v. *American Bosch Corp.*, C. C. H. Fed. Tr. Reg. Serv. Par. 52,888 (S. D. N. Y. Civil Action No. 20-164 (1942)); *Crosby Steam Gage & Valve Co.* v. *Manning, Maxwell & Moore, Inc., United States, Intervenor-Defendant*, C. C. H. Fed. Tr. Reg. Serv. Par. 57,336 (D. Mass. Civil Action No. 2267 (1945)); *United States* v. *American Air Filter Co., Inc.*, C. C. H. Fed. Tr. Reg. Serv. Par. 57,492 (W. D. Ky. Civil Action No. 574 (1946)); *United States and Alien Property Custodian* v. *Bendix Aviation Corp.*, C. C. H. Fed. Tr. Reg. Serv. Par. 57,444 (D. N. J. Civil Action No. 2531 (1946)); *United States* v. *The Diamond Match Co.*, C. C. H. Fed. Tr. Reg. Serv. Par. 57,456 (S. D. N. Y. Civil Action No. 25-397 (1946)); *United States* v. *General Electric Co., Corning Glass Works*, C. C. H. Fed.

Indeed, there has been an opportunity, since the decision of this Court in the *Hartford-Empire* case, to test the workability of that decree. It does seem as if the government, in questioning the workability of that decree, ought at least to have come here with a full report on the hearings below. All that we are told in the government brief about the *Hartford-Empire* proceedings below is that "consideration of these difficulties as illustrated by subsequent experiences in the Hartford case itself, indicates that they constitute an independent ground against permitting any continued vitality in the abused grants" (64-65). What these experiences were, or who thought that they "indicated" something, is not revealed.[9]

We have made inquiries and are advised that there has been no difficulty in working out a scheme of reasonable royalties in the *Hartford-Empire* proceedings, except only in respect of one single point. Under paragraph 13 of the final judgment entered October 31, 1945, each of seven

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Tr. Reg. Serv. Par. 57,448 (D. N. J. Civil Action Nos. 1364 and 2590 (1946)); *United States* v. *Libbey-Owens-Ford Glass Co.*, C. C. H. Fed. Tr. Reg. Serv. Par. 57,489 (N. D. Ohio Civil Action No. 5239 (1946)); *United States* v. *Owens-Illinois Glass Company*, C. C. H. Fed. Tr. Reg. Serv. Par. 57,498 (N. D. Cal. Civil Action No. 25861-C (1946)).

[9] One comprehensive review of the *workability* of the *Hartford-Empire* decree has been published, 56 Yale L. J. 77. The whole tenor of the article is to the effect that the Court-supervised reasonable royalty system has provided the anti-trust division with an effective instrument which it did not have before. Various methods of meeting the problem of determining reasonable royalties are pointed out to be available: that "most disputes could presumably be settled by negotiation"; appointment of a Master; arbitration; reference to the Federal Trade Commission; or development of an effective enforcement division within the anti-trust division of the Department of Justice.

defendants was required to designate separately the proposed charge for each of five separate privileges in respect of each of five classes of machines, which required the filing of schedules showing 175 separate proposed charges. The only proposed charges in respect of which there was any difficulty were the royalties to be charged by two of the defendants (Hartford and Lynch) under a license to another machinery manufacturer to make and sell, which was a highly theoretical problem because no such machinery manufacturer had applied for any such license. Furthermore, the problem was created by the government itself, which refused to allow the royalty to be measured by the quantity of glassware handled by the machines.

There are, therefore, no materials before this Court upon which to base this overruling of its recent opinion, except the same materials which were then available. These all reappear in the present government brief.

It is settled practice in patent accounting suits that, where the profits or damages cannot be ascertained, and no standard of comparison is available, the Court may allow a reasonable royalty. This has been settled practice since at least 1915, when it was approved by this Court in *Dowagiac Manufacturing Company* v. *Minnesota Moline Plow Company*, 235 U. S. 641, 648.[10] Indeed, the principle dates back to the decision in 1865 of *The Suffolk Company* v. *Hayden*, 70 U. S. 315, 320. In our experience, the practice of determining a reasonable royalty is frequently availed of. See 3 *Walker*, Patents, § 833, and 1945 pocket supplement. We list in a footnote (in alphabetical order and giving dates)

[10]The *Dowagiac* case was referred to in *Sheldon* v. *Metro-Goldwyn*, 309 U. S. 390, 404, as a case "which received great consideration". Both *Dowagiac* and *Sheldon* were unanimous decisions, only Mr. Justice McReynolds not participating.

over 100 decisions of the Federal courts dealing with reasonable royalties, which show not only their broad experience in this field but their capacity to deal with the problem.[11]

The government's own review of earlier authorities makes no reference to any of these cases, but opens with

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[11] *A. Mecky Co.* v. *Garton Toy Co.*, 277 Fed. 507 (E. D. Wis. 1921); *Activated Sludge, Inc.* v. *Sanitary District of Chicago*, 64 F. Supp. 25 (N. D. Ill. 1946); *American Can Co.* v. *Goldee Manufacturing Co.*, 31 F. (2d) 492 (E. D. N. Y. 1927), *aff'd* 31 F. (2d) 494 (C. C. A. 2d, 1929); *American Telephone & Telegraph Co.* v. *Radio Audion Co.*, 5 F. (2d) 535 (D. Del. 1925); *Asmus* v. *Freeman*, 34 Fed. 902 (C. C. E. D. Pa. 1888); *Austin-Western Road Machinery Co.* v. *Disc Grader & Plow Co.*, 291 Fed. 301 (C. C. A. 8th, 1923); *Austral Sales Corp.* v. *Jamestown Metal Equipment Co.*, 45 F. Supp. 360 (W. D. N. Y. 1942); *Auto Vacuum Freezer Co.* v. *William A. Sexton Co.*, 250 Fed. 459 (S. D. N. Y. 1918); *Autographic Register Co.* v. *Sturgis Register Co.*, 110 F. (2d) 883 (C. C. A. 6th, 1940); *Bates* v. *St. Johnsbury & L. C. R. Co.*, 32 Fed. 628 (C. C. D. Vt. 1887); *B. F. Goodrich Co.* v. *Consolidated Rubber Tire Co.*, 251 Fed. 617 (C. C. A. 7th, 1918) cert. denied 247 U. S. 519 (1918); *Bemis Car Box Co.* v. *J. G. Brill Co.*, 200 Fed. 749 (C. C. A. 3d, 1912), cert. denied 226 U. S. 614 (1913); *Birdsall* v. *Coolidge*, 93 U. S. 64 (1876); *Brickill* v. *Mayor, etc., of Baltimore*, 60 Fed. 98 (C. C. A. 4th, 1894); *Brewster* v. *Technicolor, Inc.*, 2 F. R. D. 186 (S. D. N. Y. 1941)~~; *Burdell* v. *Denig*~~, 92 U. S. 716 (1875); *Carbo-Frost* v. *Pure Carbonic*, 103 F. (2d) 210 (C. C. A. 8th, 1939) cert. denied 308 U. S. 569 (1939); *Cassidy* v *Hunt*, 75 Fed. 1012 (C. C N. D. Cal. 1896); *Cincinnati Car Co.* v. *New York Rapid Transit Corp.*, 66 F. (2d) 592 (C. C. A. 2d, 1933); *Clark* v. *Schieble Toy & Novelty Co.*, 248 Fed. 276 (C. C. A. 6th, 1917); *Clark* v. *Wooster*, 119 U. S. 322 (1886); *Colgate* v. *Western Electric Manuf'g. Co.*, 28 Fed. 146 (Cir. Ct. S. D. N. Y. 1886); *Collins* v. *Hupp Motor Car Corp.*, 22 F. (2d) 27 (C. C. A. 6th, 1927); *Columbia & Nehalem River R. R. Co.* v. *Chandler*, 241 Fed. 261 (C. C. A. 9th, 1917); *Consolidated Rubber Tire Co.* v. *Diamond Rubber Co. of New York*, 226 Fed. 455 (S. D. N. Y. 1915), aff'd. 232 Fed. 475 (C. C. A. 2d, 1916); *De Laski & Thropp Circular Woven Tire Co.* v. *Empire Rubber*

a curious citation of the *Crescent Amusement* case, 323 U. S. 173, 186, as if that case had held that evaluation

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& Tire Co., 239 Fed. 139 (D. N. J. 1916); *Diamond Stone-Sawing Mach. Co. of New York v. Brown*, 166 Fed. 306 (C. C. A. 2d, 1908), aff'd 155 Fed. 753 (C. C. N. D. N. Y. 1907); *Dowagiac Manufacturing Co. v. Deere & Webber Co.*, 284 Fed. 331 (C. C. A. 8th, 1922); *Dowagiac Manufacturing Co. v. Minnesota Moline Plow Co.*, 235 U. S. 641 (1915); *Dunkley Co. v. Central California Canneries*, 7 F. (2d) 972 (C. C. A. 9th, 1925) cert. denied 270 U. S. 646 (1926); *Dunkley Co. v. Vrooman*, 272 Fed. 468 (C. C. A. 6th, 1921) per curiam; *Egry Register Co. v. Standard Register Co.*, 23 F. (2d) 438 (C. C. A. 6th, 1928); *Emerson v. Simm*, Fed. Cas. No. 4443 (C. C. D. N. J. 1873); *Enterprise Mfg. Co. v. Shakespeare Co.*, 141 F. (2d) 916 (C. C. A. 6th 1944); *Expanded Metal Co. v. General Fireproofing Co.*, 247 Fed. 899 (N. D. Ohio 1917) appeal dismissed per stipulation 272 Fed. 1021 (C. C. A. 6th, 1921); *Fox Typewriter Co. v. Underwood Typewriter Co.*, 287 Fed. 453 (C. C. A. 6th, 1923) per curiam; *Freeman v. Premier Machine Co.*, 25 F. Supp. 927 (D. Mass. 1938); *Fulton Bag & Cotton Mills v. Werthan Bag Co.*, 28 F. (2d) 922 (C. C. A. 6th, 1928); *Gear Grinding Machine Co. v. Studebaker Corporation*, 4 F. (2d) 510 (C. C. A. 6th, 1925); *General Motors Corp. v. Blackmore*, 53 F. (2d) 725 (C. C. A. 6th, 1931); *General Motors Corp. v. Dailey*, 93 F. (2d) 938 (C. C. A. 6th, 1937); *Goodyear v. Bishop*, Fed. Cas. No. 5559 (C. C. S. D. N. Y. 1861); *Hartford-Empire Co. v. United States*, 323 U. S. 386 (1945) clarified, 324 U. S. 570 (1945); *Hazeltine Corporation v. Zenith Corporation*, 100 F. (2d) 10 (C. C. A. 7th, 1938) cert. denied 306 U. S. 656 (1939); *Horvath v. McCord Radiator & Mfg. Co.*, 100 F. (2d) 326 (C. C. A. 6th, 1938); *Hunt Bros. Fruit-Packing Co. v. Cassiday*, 64 Fed. 585 (C. C. A. 9th, 1894); *International Vitamin Corporation v. E. R. Squibb & Sons*, 13 F. Supp. 129 (E. D. N. Y. 1935); *K. W. Ignition Co. v. Temco Electric Motor Co.*, 283 Fed. 873 (C. C. A. 6th, 1922) cert. denied 260 U. S. 746 (1923); *Kaltenbach v. Chesapeake & Ohio Ry. Co.*, 43 F. Supp. 819 (E. D. Va. 1941) modified 124 F. (2d) 375 (C. C. A. 4th, 1941); *Keller v. Stolzenbaugh*, 43 Fed. 378 (C. C. W. D. Pa. 1890); *Malleable Iron Range Co. v. Lee*, 263 Fed. 896 (C. C. A. 7th, 1920) cert. denied 251 U. S. 562 (1920); *Mathey v. United Shoe Machinery Corp.*, 54 F. Supp. 694 (D. Mass. 1944); *McKee Glass Co. v. H. C. Fry Glass Co.*, 248 Fed. 125 (C. C. A. 3rd, 1918);

of patents (there, copyrights) would impose upon a Court "an onerous and absorbing administrative burden" (64).

Merrell Soule Co. v. *Powdered Milk Co. of America*, 7 F. (2d) 297 (C. C. A. 2d, 1925); *Metallic Rubber Tire Co.* v. *Hartford Rubber Works*, 275 Fed. 315 (C. C. A. 2d, 1921) cert. denied 257 U. S. 650 (1921); *Motor Player Corp.* v. *Piano Motors Corp.*, 19 F. (2d) 993 (D. N. J. 1927); *Munger* v. *Perlman Rim Corp.*, 275 Fed. 21 (C. C. A. 2d, 1921) cert. denied 257 U. S. 645 (1921); *Muther* v. *United Shoe Machinery Co.*, 21 F. (2d) 773 (D. Mass. 1927); *National Brake & Electric Co.* v. *Christensen*, 38 F. (2d) 721 (C. C. A. 7th, 1930) cert. denied 282 U. S. 864 (1930); *National Electric Signaling Co.* v. *United States*, 49 F. Supp. 754 (Ct. Claims 1943); *National Electric Signaling Co. et al.* v. *United States*, 49 F. Supp. 768 (Ct. Claims 1943); *National Tube Co.* v. *Mark*, 10 F. (2d) 430 (C. C. A. 6th, 1926); *Overman Cushion Tire Co.* v. *Goodyear Tire & Rubber Co.*, 66 F. (2d) 361 (C. C. A. 2d, 1933) cert. denied 290 U. S. 681 (1933); *Packet Co.* v. *Sickles*, 86 U. S. 611 (1873); *Power Specialty Co.* v. *Connecticut Light & Power Co.*, 80 F. (2d) 874 (C. C. A. 2d, 1936); *Raytheon Mfg. Co.* v. *Radio Corporation of America*, 286 Mass. 84, 190 N. E. 1 (1934); *Reliance Construction Co.* v. *Hassam Paving Co.*, 248 Fed. 701 (C. C. A. 9th, 1918); *Reynolds Spring Co.* v. *L. A. Young Industries*, 101 F. (2d) 257 (C. C. A. 6th, 1939); *Rockwood* v. *General Fire Extinguisher Co.* 37 F. (2d) 62 (C. C. A. 2d, 1930); *Ross* v. *Montana Union Ry. Co.*, 45 Fed. 424 (C. C. D. Mont. 1890); *St. Louis Screw Co.*, 2 B. T. A. 649 (1925); *Seymour* v. *McCormick*, 57 U. S. 479 (1853); *Simmons Co.*, 8 B. T. A. 631 (1927), aff'd 33 F. (2d) 75 (C. C. A. 1st, 1929), cert. denied 280 U. S. 588 (1929); *Sinclair Refining Co.* v. *Jenkins Petroleum Process Co.*, 289 U. S. 689 (1933); *Smith* v. *Thurrell*, 13 F. Supp. 937 (D. N. H. 1936); *Standard Mailing Machines Co.* v. *Postage Meter Co.*, 31 F. (2d) 459 (D. Mass. 1929); *Standard Brands* v. *Federal Yeast Corp.*, 38 F. (2d) 314 (D. Md. 1930); *State ex rel Attorney General* v. *Halliday*, 61 Ohio St. 352, 56 N. E. 118 (1899); *State ex rel International Business Machines Corp.* v. *Board of Review of City of Fond du Lac*, 231 Wis. 303, 285 N. W. 784 (1939); *Stutz* v. *Armstrong*, 25 Fed. 147 (C. C. W. D. Pa. 1885); *The Suffolk Co.* v. *Hayden*, 70 U. S. 315 (1865); *Sutton, Steele & Steele* v. *Gulf Smokeless Coal Co.*, 6 F. Supp. 419 (S. D. W. Va. 1933), modified 77 F. (2d) 439 (C. C. A.

What the Court actually said in that case, was that what was there sought to be done did *not* impose "an onerous and absorbing administrative burden".[12]

No valid reason appears why this Court should now say that it is impossible for a court of equity to value a patent. The government unduly complicates the matter by talking as if the Courts will necessarily have to value *all* of the patents. Thus, its brief says that, "In the instant case the court will have to place a value upon each of 351 patents and applications" (67). This is an over-statement of the decree. The decree provides that any party may take a license under "any or all" of the patents, *i.e.*, may select "any" of them. If it selects one patent, the value will only have to be placed upon that one, etc.

But even if a licensee were to select a great many patents, that is not in itself a reason for the Courts to sus-

4th, 1935); *Tilghman* v. *Procter*, 125 U. S. 136 (1888); *Triplex Safety Glass Co. of North America* v. *Duplate Corp.*, 10 F. Supp. 420 (W. D. Pa. 1934) modified and referred in part, 81 F. (2d) 352 (C. C. A. 3rd, 1935), further modified 298 U. S. 448 (1936); *United States* v. *Berdan Fire-Arms Manufacturing Co.*, 156 U. S. 552 (1895); *United States* v. *General Electric Co.*, 15 F. (2d) 715 (N. D. Ohio 1925) aff'd. 272 U. S. 476 (1926); *United States* v. *Palmer*, 128 U. S. 262 (1888); *United States* v. *Standard Oil Co. (Indiana)*, 283 U. S. 163 (1931), *reversing* 33 F. (2d) 617 (N. D. Ill. 1929); *United States Frumentum Co.* v. *Lauhoff*, 216 Fed. 610 (C. C. A. 6th, 1914); *Van Meter* v. *United States*, 37 F. (2d) 111 (W. D. N. Y. 1930), modified 47 F. (2d) 192 (C. C. A. 2d, 1931); *W. S. Godwin Co.* v. *International Steel Tie Co.*, 29 F. (2d) 476 (C. C. A. 6th, 1928); *Wallace & Tiernan Co.* v. *City of Syracuse*, 45 F. (2d) 693 (C. C. A. 2d, 1930); *Wedge* v. *Waynesboro Nurseries*, 31 F. Supp. 638 (W. D. Va., 1940); *Westclox Co.* v. *United States*, 37 F. (2d) 191 (Ct. Claims 1930); *S. Marsh Young*, 2 B. T. A. 457 (1925).

[12] What was there sought to be done, was to retain supervision by the Court of future theatre acquisitions.

pend their duties. It would be a new rule of equity to provide that equity can no longer try a case because it has become a difficult one. The Courts are constantly required to place values upon property; and if the Patent Office is going to grant 351 patents, there is no inherent reason why the Court should not value the 351, if a licensee wants all of them. Doubtless some patents would be given a very small, if any, value, and the whole thing would be worked out in a practical way as is befitting Court supervision of any complicated financial or economic transaction. Even under Court supervision, it would doubtless be appropriate for the Court first to ask the two parties to seek to reach an agreement, just as is done every day in contests between security-holders, and then for the Court to hold a hearing, at which of course the Attorney General would be represented, to determine whether the agreement reached (a) was not the result of over-reaching or domination of one party by the other, and (b) was not incompatible with the public interest as represented by the Attorney General.

In bankruptcy cases, the Federal Courts are constantly called upon to set comparative values upon conflicting claims of a very much larger amount. In valuing the claims of mortgagees of various divisions of a railroad, for example, the Court does not enter upon the meticulous type of valuation that might be indulged, for example, by local taxing authorities. Other techniques have been devised, and work. There is no evidence that techniques may not be worked out for the ready determination of reasonable royalties.

At all events, this not a case in which the contrary can be held. Ten years of experience should have enabled the government to find evidence, if there be any, that Virginia

Chemical or American Zirconium have complained that the 2% royalty that they paid to du Pont was unreasonable. That royalty was reached by arm's-length negotiation.

The price-fixing cases cited by the government (75), *United States* v. *Trenton Potteries,* 273 U. S. 392, and *United States* v. *Socony-Vacuum Oil Co.,* 310 U. S. 150, are not in point. They did not hold that a Court could not on occasion determine a reasonable price; they held that it was a restraint of trade for two private parties to agree upon prices, regardless of whether reasonable. The price-fixing cases would only be in point if the Court had there indicated that the defendants in those cases ought to have been compelled to give away the offending articles free.

Or there might be an analogy to the present proposal that the patentee be deprived of his licensing revenue (the royalty) if in the *Socony* case, for example, it had been provided that the oil companies must thereafter sell at the wholesale price, without any manufacturer's profit.

After all, the government is saying nothing more than that the inventors' or patentees' profit, known as a royalty, is necessarily one element of cost, and that, therefore, where a competitor is a patentee, it has a *pro tanto* saving or competitive advantage. The government wholly overlooks the obvious response that the patentee has an investment in the research or in the purchase of the patent, just as the oil refiner (in the example given) has an investment in the process of manufacture. The District Judge, who will presumably administer the decree, has taken a much more realistic view of what a reasonable royalty really is, saying:

> "I am using the word 'modest' in lieu of the word 'reasonable' because I want to suggest what is intended, the intention being a condition such as

the industry can readily handle without establishing an undue advantage one over the other not justified by an investment involved in these patent ownerships, and also as it is suggested in one of these propositions, not only as to all existing patents but as to all patents filed or issued over a period of five years, or all applications that will be filed over a period of years, I do not remember which" (R. 1253).

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"And I think that I would go along with Mr. Webster to this extent, that if as a result of the taking of the testimony it appeared as a matter of fact, not of law, but as a matter of fact that the value of the patent, and therefore the reasonableness of the royalty, or the cost of the patent and therefore the reasonableness of royalty, or whatever evidence might be relevant to a determination of that question, approaching zero, I think the court would not have to be ritualistic and apply the traditional symbols and could say "Zero" without offending the law, but that would be a zero arrived at by a different process. In other words, that would be a zero arrived at by process of evaluation. I am tentatively under the impression that the decree does contemplate a process of appraising, a process of evaluation." (Stenographer's Minutes, Oct. 24, 1946, p. 45, Hearing before Hon. Simon H. Rifkind on National Lead's motion.)

The government's contention that reasonable royalty licensing is unworkable is not supported either by judicial or business experience.

(3) Royalty-free Licensing Favors National Lead.

Apart from the foregoing, a most unusual situation exists in this litigation bearing on the issue of royalty-

free licensing. We refer to the amazing position taken by National Lead in joining with the government to seek royalty-free licensing. National Lead in the court below argued in favor of licensing at reasonable royalties. It now admits that it violated the Sherman Act. That it was the principal defendant and proceeded with little regard for the requirements of the Sherman Act, is patently clear from the findings of the court below. Its sudden shift from its original position is not dictated by any concession to the public interest. It urged licensing at reasonable royalties until it was brought forcefully to recognize that its patent position was not as strong as that of du Pont. As soon as it realized that its pocketbook was affected, its views on royalties changed.

In joining with the government on the royalty-free issue, it is not motivated by any desire to assist this Court in working out the delicate problems presented by a decree which seeks to balance the rights of the patent owner with the obligations imposed by the anti-trust laws. It desires merely to perpetuate its position in the industry with the least cost to itself. Having this position, protected by its various cartel agreements, it has for a long time been able to proceed without energetically attempting to develop new processes.

National Lead now finds itself faced with the energetic competition of the smaller manufacturers and with constantly increasing competition of du Pont which broke off from technical exchange with National Lead in 1940. For commercial reasons it now desires a "free ride".

Certainly this Court should proceed with particular caution before it permits National Lead to utilize this litigation, in which it is the principal offender, for its own private pur-

poses. If National Lead desires royalty-free licensing as its concession suggests, this Court should impose royalty-free licensing upon it. This need not and should not involve imposing royalty-free licensing upon du Pont.

National Lead seeks to justify its present position (Brief, pp. 58-59) by asserting that it is consistent with its position in the District Court. Nothing could be farther from the facts.

At the hearing on the decree National Lead and du Pont both agreed that it would be error to order royalty-free licensing. Both distinguished the *Morton Salt* doctrine. National Lead filed a printed brief with the District Court in which it stated, under the heading "The proposed forfeiture of defendants' patents is unauthorized", that "only one view" could be taken of the government's proposal of royalty-free licensing of present patents; this view was: "In other words, the Supreme Court, despite the failure of Congress to enact compulsory licensing legislation, will approve a decree, in a proper case, making licensing mandatory, *but only on payment of a reasonable royalty.* There is thus no basis for the government's prayer for royalty-free licensing". (Italics in the original; National Lead brief in the District Court on the decree, p. 36).

After the decree, it became the duty of du Pont and National Lead to offer a license on terms of reasonable royalty. Correspondence between National Lead and du Pont on the subject is set out in Appendix A to this brief.[13] National Lead opened the matter by stating that it would grant licenses under all its patents. Its proposal was: (a) to parties having no patents under which National Lead should

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[13] This correspondence was submitted by National Lead as a part of its record on its motion for royalty-free licensing before the District Court on October 24, 1946.

itself desire a license, a current royalty of 1% or a lump sum; (b) to parties having patents under which National Lead should desire a license, a royalty-free exchange (App. A p. 1).

Du Pont promptly replied that a royalty-free exchange did not appear feasible, that the royalty rate should be dependent upon the importance of the patents under which each would be licensed, and that du Pont was ready "to undertake negotiations * * * on a basis which is consistent with the terms of the decree" (App. A p. 2). Du Pont followed this with a letter saying that there were three National Lead patents under which it would desire a license and that the license should be "terminable on reasonable notice", for there was one patent under which du Pont would not expect to operate for more than six months, and the other two related to only a part of du Pont's production (App. A p. 3).

National Lead declined to consider the du Pont proposal and said that it would desire a license under all the du Pont patents (App. A p. 4).

Du Pont's reply was that the rate for a royalty under such patents would be 2%,—a rate which "we feel * * * will clearly permit competition", and reaffirmed that its own request was for a license under three named patents only, saying: "certainly an evaluation of these three patents presents no serious problem, and we stand ready to pay whatever reasonable royalty rate is established by you consistent with the decree for the licensing of these patents" (App. A p. 5). This was followed by a formal offer by du Pont to accept 2% as royalty under all its patents, and to pay as royalty for the three patents required by it "1% of the value of our production of pigments manufac-

tured under the licensed patents" (App. A pp. 6-7). Du Pont further stated (App. A p. 7):

> "As we have advised we consider your proposals for licensing prohibited by the decree and, for this as well as other reasons, they cannot be accepted by du Pont".

We respectfully submit that the position taken by du Pont was in accord with the decree and with the whole policy of the law relating to royalties under patents, as laid down by this Court, and that National Lead's position was untenable and directly in the teeth alike of the law and of the decree.

What National Lead obviously did, was to ask for a reasonable royalty provision as required by law, until it found that du Pont might not need its patents; whereupon it turned about and asked for a royalty-free license. This was done for its own commercial reasons. Its counsel thereupon attempted to argue to the District Court, as they have now done in their brief in this Court, precisely the opposite of what they had argued on the hearings on the decree.[14] There had in the interim been no change in the law.

The District Court directed that the National Lead motion should stand over until after the decision of this Court. In the event that reasonable royalty licensing is sustained, National Lead will be required to pay du Pont only the amount which the District Court, with its knowl-

[14]The government makes the suggestion that this is because National Lead has reached the pious conclusion "that reasonable royalty licensing of misused patents in this case cannot be effective or give adequate relief to prevent continued violations of the anti-trust laws" (58). The government was doubtless anxious to welcome an ally, regardless of the reasons for its conversion.

edge of the industry and its problems, finds reasonable. Surely such payment will not prevent the full accomplishments of the decree's objectives.

POINT IV.

THERE IS NO POLICY IN THE PATENT LAW OR ANTITRUST LAW REQUIRING THAT DU PONT'S PATENTS BE RENDERED UNENFORCEABLE FOR THEIR REMAINING TERMS.

(1) The *Morton Salt* Doctrine Is Inapposite.

The portion of the government brief dealing with this subject is unsupported by any Assignment of Error. The closest assignment was No. 1 (R. 330), that the patents should be compulsory licensed free of royalty until the Courts should have determined that the effects of the illegal combination have been fully dissipated.

The government's departure from its original Assignment of Error at this late stage of the case is significant of the fact that this case has been seized upon as an instrument to advance a philosophy unrelated to its particular facts.

The government renews in this case the argument which it made in the *Hartford-Empire* case and which the Court there rejected in the following language (323 U. S. at 415):

> "The Government urges that such forfeiture is justified by our recent decisions in *Morton Salt Co.* v. *G. S. Suppiger Co.*, 314 U. S. 488, and *B. B. Chemical Co.* v. *Ellis*, 314 U. S. 495. But those cases merely apply the doctrine that, so long as the patent owner is using his patent in violation of the antitrust laws, he cannot restrain infringement of it by others. We were not there concerned with

> the problem whether, when a violation of the anti-trust laws was to be restrained and discontinued, the court could, as part of the relief, forfeit the patents of those who had been guilty of the violation. Lower federal courts have rightly refused to extend the doctrine of those cases to antitrust decrees by inserting forfeiture provisions" (footnotes omitted).

There is indeed a genuine distinction between the *Morton Salt* type of case and an anti-trust case. This can be illustrated by a simple analogy. Suppose that the owner of "A" farm, having unlawfully blocked the owner of "B" farm from any egress except over "A", sues to enjoin the owner of "B" from trespass; he may be denied his injunction until he has removed the block. However, it does not follow that, because the Court will refuse him the injunction until the effect of his unlawful block has been dissipated, it will affirmatively enter an order giving the owner of "B" a perpetual easement or right of way over "A".

The fault may, of course, be dissipated, as in *Novadel-Agene Corp.* v. *Frederic H. Penn.,* 119 F. (2d) 764, 766-7 (C. C. A. 5th), cert. denied 314 U. S. 645; *Sylvania Industrial Corp.* v. *Visking Corp.,* 132 F. (2d) 947, 958 (C. C. A. 4th), app. dism. 319 U. S. 771; *Universal Sewer Pipe Corp.* v. *General Const. Co.,* 42 F. Supp. 132, 134 (N. D. Ohio, E. D.).

The government also makes the inverted argument that if there were no decree and du Pont sued, it could be defeated under the *Morton Salt* doctrine, and that therefore it is the decree itself which is creating a right in du Pont which it would not otherwise have (43-44).

This misses the whole point of equity relief. By taking jurisdiction of the suit by the Attorney General, the Equity Court is discharging its duty of so ordering affairs in the industry as to put an end to the wrong-doing as from the date of the decree. Of course, that changes the legal relations of the parties from that date. It is the decree itself which dissipates the consequences of the assumed violation.

When a private party defendant establishes as a defense to an infringement suit that the plaintiff is using the patent illegally (whether in violation of the anti-trust laws or against public policy generally), that illegality is necessarily then subsisting and continuing. It becomes appropriate to withhold the assistance of equity to the patentee, for to grant that assistance would be to assist the wrong-doer.

But when the Attorney General intervenes, in accordance with the intent that Congress expressed in 1890, to prevent the illegality, and the Court takes jurisdiction and moulds a decree appropriate to that end, then from that time forward the illegality ceases to exist.

The government also marshals cases which do not deal with the *Morton Salt* type of situation, but which deal only with the interpretation and enforcement of patents. In their aggregate, all of these cases establish only that the courts are indeed astute to give every opportunity to contest the validity or scope of patents. They hold in effect that public interest requires that no legal impediments be put in the way of litigants who call patents into question.

The authorities to the effect that the Courts will not admit common law defenses to embarrass contest of validity of patents (applied to the doctrine of *res adjudicata* in the *Mercoid* case, 320 U. S. 661, and to the doctrine of estoppel in the recent *Katzinger* case, decided this term, January 6, 1947) would have application if, for example,

National Lead had asserted some patent right against du Pont, and had then attempted to defeat du Pont's right to defend itself by saying that du Pont had been *in pari delicto.* The principles of the *Mercoid* and *Katzinger* cases would presumably then have applied, so that du Pont's contest of National Lead's patent right could not have been defeated by the plea of *in pari delicto.* The *Mercoid-Katzinger* rule is not a rule to stifle patent proceedings and substitute confiscation. Nor has it been so applied. It is a rule to free patent contests from obstruction through pleas not going to the merits.

The government overlooks the obvious distinction between recognizing a patent right and then confiscating it, on the one hand, and holding that no patent right ever arose at all, on the other hand. In such cases as *Altoona Theatres* v. *Tri-Ergon,* 294 U. S. 477, 493, it was held that the claimant had not obtained a valid patent at all; such cases are not authority for taking a valid patent and then confiscating it.

In conclusion, therefore, there is no valid reason why, when the Attorney General and the Courts have discharged their statutory duty of preventing and restraining violations of the Act, the defendants should not thereafter receive reasonable royalties for use of their property. This is true, at least in cases where, as here, no serious claim can be made that the defendant in question has improperly acquired its patents or used its licensing powers as a weapon for the wrongdoing against which the decree is directed.

(2) Du Pont Has Scrupulously Exercised Its Patent Rights Within the Lawful Limits of the Authorized Grant.

The government brief states (99) that "The parties [*sic*] have tied as a condition to the exchange of exclusive

licenses under existing patents a requirement that all future patents relating to the broad field of the titanium industry be exclusively licensed to the conspirators". There is not a single "exchange of exclusive license" to which du Pont was a party, and in du Pont's licenses to Virginia Chemical and Zirconium there was no requirement that future patents be licensed to du Pont at all.

There follows in the government brief a great deal of discussion of territorial and marketing restrictions accomplished through patents, to none of which was du Pont a party. Then come such statements as these (100): "Licensing has been conditioned upon reciprocal undertakings to furnish all present and future 'know-how' to the cartel parties. The restrictions invoked by the parties as a condition to the waiving of the right to exclude extended beyond the life of any then existing patent".

In the du Pont licenses to Virginia Chemical and Zirconium there was no requirement that the licensee should furnish any "know-how" to du Pont, there was no provision for future patents and there was no restriction extending beyond the life of any existing patent.

All these arguments of the government are addressed to the issue whether there shall be royalty-free compulsory licensing. They must thus have been directed exclusively against du Pont, for National Lead has expressly conceded that there ought to be such compulsory royalty-free licensing and has urged it. The government knew this when it was writing its brief, for it makes a point of it (58).

When the government does reach the name of "du Pont" (101), all that it can find to blame is this:

> "Competition in the acquisition of patents was proscribed in that defendants du Pont and National Lead adhered to the policy of privately determining

which had priority in respect of patent claims which were the subject of interference proceedings in the Patent Office".

The government then denounces this practice generically. But the private settlement of Patent Office interferences was in direct conformity with the rule of law as laid down in Mr. Justice Brandeis's opinion for this Court in the *Cracking* case, 283 U. S. at 171:

> "Where there are legitimately conflicting claims or threatened interferences, a settlement by agreement, rather than litigation, is not precluded by the Act".

There was nothing arbitrary about these settlements between National Lead and du Pont. They were hard-fought, even to the extent of charging that one party had stolen the inventions of the other. Each was determined to obtain its own patents. See, for example, Ex. 487 (Ex. R. 1862). This is an extensive report, dated November 17, 1938, concerning "patent interferences", and was addressed by a representative of National Lead to its manager, Mr. Garesche. Reporting a trip to Wilmington, its author expresses his disturbance at finding that du Pont was ignoring "Dr. Jebsen's effort to establish friendly relations between the British and German Titan companies, on the one side, and Krebs [du Pont] on the other side" (Ex. R. 1863), for "we find that there was no possibility of dissuading du Pont from filing an application which might conflict with our application in case T-187 because, we were informed, all divisions of du Pont are under specific orders from the Executive Committee to file patent applications on everything that might possibly contain patentable subject-matter".

The record is clear that du Pont's Executive Committee required "the prompt filing of applications for United States letters patent covering all patentable inventions which may possess commercial value" (Ex. R. 4193).

Similarly, there is no basis for the government's constant and frequent assertion that defendants du Pont and National Lead aggregated three wholly separate competing patented processes, evidently referring to the Barton-Rossi, Jebsen and Blumenfeld processes. There is no finding and indeed no evidence that Barton-Rossi or Jebsen were commercially independent processes. On the contrary, the National Lead manufacturing process was founded on both (FF 37, R. 248). Moreover, that process was directly in conflict with and overlapped Blumenfeld patents, as illustrated by the genuine patent conflict which the Court found arose between du Pont and National Lead, holders of patents covering the respective processes and which eventually led to the cross-licensing agreement.[15]

[15] Thus, du Pont, following Commercial Pigments' practice, engaged only in pure TiO_2 manufacture until the middle of 1935 when it commenced composite pigment manufacture (Ex. 85, Ex. R. 4369). It followed the Blumenfeld method which entails as its essential feature the precipitation of high yields of TiO_2 from a so-called seeded or nucleated solution by boiling a titanium sulfate solution recovered from the sulfuric acid dissolution of an ilmenite ore (Ex. R. 3887). In such hydrolysis, it is essential to a commercially economical operation and product that a concentrated, rather than a dilute, titanium sulfate solution be used in the hydrolysis, and that in the production of such solution from the titanium ore a minimum amount of sulfuric acid should be used, i.e., less acid than is required to form normal salts of iron and titanium (Ex. 190, Ex. R. 1089-94). Precipitation of TiO_2 with the employment of concentrated solutions was covered by the Titan (Jebsen) Patent 1,288,863, dated December 24, 1918, to Fladmark, while Jebsen Patent 1,333,819, dated March 16, 1920, covered the use of less acid than required to form normal

POINT V.

IF COMPULSORY LICENSING IS ORDERED, DU PONT IS ENTITLED TO A RECIPROCAL LICENSE FROM ITS LICENSEES.

We are now assuming that this Court will affirm the provision for compulsory licensing. If so, the admitted purpose of compulsory licensing, *i.e.,* the removing of obstacles to competition in the industry, requires the principle of reciprocity. Otherwise, du Pont, although now one of the two leading American producers, could soon be at the mercy of, and wholly unable to compete with, its licensees. National Lead, the other leading American producer, would be subject to the same fate. If either Virginia Chemical or Zirconium undertook a policy of blocking and fencing, they might soon (while enjoying the benefits of the du Pont or National Lead patents) prevent these concerns from practising their own inventions.[16]

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salts of iron and titanium in the ore dissolution. These Fladmark and Jebsen patents were infringed by the Blumenfeld operation of Commercial Pigments and du Pont in 1931 and 1933 Ex. 196, Ex. R. 1172-1174).

The Barton and Rossi method dominated composite TiO_2 pigment manufacture and is exemplified by patents such as No. 1,205,144 or 2,234,260, in which the hydrolysis or precipitation of the TiO_2 is effected in the presence of an extender such as barium or calcium sulfate to obtain a coprecipitated or extended form of TiO_2 pigment. (Ex. R. 3827, 3830) Since it is essential in the Barton process to resort to hydrolysis and the use of titanium sulfate solutions, the employment therein of the Blumenfeld "seeding" feature and of the Jebsen concentrated solutions and minimum amount of sulfuric acid in the ore dissolution to obtain the solution which is hydrolized, were equally essential to a commercially economical type of operation and to the production of a satisfactory grade of product.

[16]Examination of the colloquy between the District Court and counsel for the government leaves no doubt but that the

This is no mere hypothetical possibility. The record amply demonstrates that the other two existing American producers of titanium pigments, Virginia Chemical and

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Court, and perhaps then the government itself, recognized the inherent unfairness of a system of compulsory licensing which did not involve reciprocity.

"THE COURT. What argument is there to be made in opposition to the proposition that if compulsory or free licensing is to be granted, that a reciprocal obligation from the beneficiary of that privilege should not be exempt? (R. 1272)

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"MR. DIXON. May I ask this question? I do not understand whether your Honor was thinking along the line of having this on a royalty-free basis.

"THE COURT. Assuming royalty-free, why shouldn't it be perfectly proper, assuming royalty-free, that if Virginia Chemical wanted all the National Lead patents free, that Virginia Chemical should offer National Lead an equally free license on all of its titanium patents?

"MR. DIXON. I can see where that might have considerable merit, your Honor.

"THE COURT. And if it is on a stipulated control, modest royalty but compulsory, and if Virginia Chemical wants access to the du Pont patents, why shouldn't du Pont have the advantage of all the Virginia Chemical patents? Otherwise you will arrive at a situation conceivably where Virginia Chemical would simply change places with du Pont in becoming the dominating factor in the industry under this extraordinary advantage of being able to take everything for itself and keeping everything that it has.

"MR. DIXON. Well, if I understand your Honor's question, it is directed to the granting of royalty-free licenses by the defendants?

"THE COURT. No. I am suggesting it on both premises.

"MR. DIXON. I understand, or, in other words, to anyone who wants the use of these patents on a reciprocal basis.

"THE COURT. Of course, a new man going into the industry, probably he has not anything to offer anybody in return.

Zirconium, are both resourceful companies having powerful financial backing. Virginia Chemical was heretofore owned by the Interchemical Corporation, and has now been acquired by one of the most active and powerful chemical companies in the United States, American Cyanamid Corporation. Zirconium continues under the control of the important Glidden Company.

The District Court recognized that the effect of the government's argument is that although du Pont ought to be compelled to enable others to compete, its own capacity to compete with those others should be impaired. Such an argument could only be justified if the Court were imposing some punishment or penalty, regardless of the consequences upon the state of competition in the industry.

The government tries to build an argument out of the possibility that du Pont may have to license only under a "single patent", and that simultaneously its licensee "must surrender licenses under every patent" (125). This is a

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"Mr. Dixon. That is what I was about to come to.

"The Court. Ordinarily he would have nothing, but if he has it should he keep it as his exclusive property and get everything that his competitors have? There is a vast difference there.

"Mr. Dixon. That is the situation that I was coming to, that someone else might come into the industry with no patents and he might be perfectly willing and probably would to assume that reciprocal obligation, and it might well be that the Government would be satisfied with that kind of arrangement, because here the ultimate purpose of this whole case, which has taken so much of your Honor's time and the time of everyone else, is to open up this industry to be certain that it is free and competitive and upon an equal basis, and so that there are no disadvantages foisted on anyone who wants to go into the industry, and on the suggestion that your Honor has made the Government might very well be receptive to it." (R. 1273-1274)

jaundiced way of reading the provisions in paragraph 7 of the decree that the licensee is entitled to select "any or all" of du Pont's patents that it wishes to be licensed under, and that du Pont then can select "any or all" of the patents of the other party under which du Pont wishes to be licensed (R. 313). The government ignores the fact that even if du Pont asks for a license under many or all of the other party's patents, du Pont will have to pay royalties thereon, and the other party will remain free to demand further licenses from du Pont during the operative period of paragraph 7. Any existing vice in the decree in this respect is not that du Pont is entitled to a license under "any or all" of the patents of a licensee when that licensee is demanding a license under "any or all" of the patents of du Pont, but that du Pont is deprived of the right to require others to license it unless they initially request a license from du Pont. The government completely overlooks this fact. Mutuality and open competitive opportunity is already impaired by the decree as it is, in so far as it prevents du Pont from initiating the negotiation to obtain a license under any patent they may issue in the future, for example, to American Cyanamid or the Glidden Company. Such a patent could obviously drive du Pont out of business.[17]

The government purports to find a different vice in the decree, saying that it enables some sort of "pool of patents" to be formed by the defendants from which others are excluded (125). This is a misconception, as it is based on the

[17]From du Pont's standpoint the injustice of the decree in this respect is particularly glowing as regards Zirconium (the Glidden Company). The party that subscribed to the "principles" of the cartel, and to all of its territorial restrictive provisions, is entitled to ask for a license from du Pont, but du Pont is not entitled to ask it for a license in the first instance.

old fallacy that the defendants are one; whereas whatever be one's views as to the prior position, there can be do doubt but that under the decree National Lead and du Pont will be independent and competitive. Du Pont, for example, will only have a pool of other patents to the extent that the others will have elected to ask it for its patents.

The government is correct in pointing out that there is no provision in the decree that third parties can compel each other to license (126). Although du Pont is compelled to license both A and B if they ask for licenses, and in turn is entitled to a license itself under A's and B's patents, neither A nor B can compel the other to license it. In this hypothetical situation, of course, A and B could at any time cross-license each other. But in any event the government did not raise the point below. If it had, the decree might have provided that any applicant for a license under du Pont's patents must give du Pont the right to sublicense such applicant's patents, if any, to third persons. The same could have been provided for in the case of National Lead patents. Or the decree could have provided that a condition of A or B licensing du Pont could be a requirement that A or B license all applicants. Perhaps this Court should so modify the decree. Manifestly the elimination of the reciprocity provision in the decree is not a fair way to resolve the hypothetical lacuna presented by the government.

The principle of reciprocal licensing has been adopted in consent decrees. See, for example, in Appendix B (pp. 10, 12) the decrees in *United States* v. *General Electric Company, Westinghouse Electric & Manufacturing Company*, C. C. H. Fed. Tr. Reg. Serv., Par. 52,777 (D. N. J. No. 1364 (1942)); *United States* v. *American Bosch Corporation*, C. C. H. Fed. Tr. Reg. Serv., Par. 52,888 (S. D.

N. Y. Civil Action No. 20-164 (1942)). The principle is conducive to competition in the industry, and this Court should approve it as a desirable method of implementing a compulsory licensing decree.

POINT VI.

THERE IS NO POSSIBLE WARRANT FOR AN ORDER OF DIVESTITURE OF PLANTS. THE WHOLE SUBJECT WAS THOROUGHLY CONSIDERED BY THE DISTRICT COURT, WHICH EXERCISED ITS DISCRETION BASED ON KNOWLEDGE OF THE RECORD AND AWARENESS BOTH OF THE LEGAL AUTHORITIES AND THE ECONOMIC THEORIES INVOLVED.

The record tells us nothing about du Pont's plants, and the government showed not the slightest interest in them until the hearing on the decree when this idea of divestiture suddenly occurred to its counsel. All that the record shows is that there is one plant at Baltimore, Maryland, and one at Edge Moor, Delaware. That knowledge comes to us from a single sentence in the testimony of Mr. Daley, du Pont's pigments manager (R. 1153), unaccompanied by any description of either plant.

When the divestiture issue was presented to the District Court, counsel for the government repeatedly urged that the proposition was wholly a matter for discretion (R. 1204, 1207, 1208, 1214, 1216). The District Court refused expressly to grant the relief, saying that his refusal was "*an act of discretion*" (R. 1286). The present view of the government that in a case such as this plant divestiture is mandatory can only be explained by the fact that the discretion which it is so clearly felt rested in the District Judge has been exercised contrary to the government's wishes.

This Court has repeatedly recognized the desirability of vesting wide discretion in the District Courts, so that Sherman Act decrees may be framed in the light of the variable factors which are always present in an anti-trust proceeding. Thus, in one of the most recent divestiture cases, *United States* v. *Crescent Amusement Company*, 323 U. S. 173, 185, this Court said: "We recognize, however, that there is a wide range of discretion in the District Court to mould the decree to the exigencies of the particular case and where the findings of violations are sustained we will not direct a recasting of the decree except on a showing of abuse of discretion." See also *Ethyl Gasoline Corporation* v. *United States*, 309 U. S. 436, 461; *United States* v. *Bausch & Lomb Co.*, 321 U. S. 707, 725, 728, and *Associated Press* v. *United States*, 326 U. S. 1, 22.

The underlying reason for this view, which the government here apparently ignores, was stated by Mr. Justice Rutledge in his dissenting opinion in *Hartford-Empire Co.* v. *United States*, 323 U. S. 386, 441, when he said:

> "* * * The reasons which thus ordinarily restrict the scope of appellate review have magnified force in anti-trust proceedings. Their complex character usually requires, as in this case, months or years for the trial court's consideration. With its maximum attention, this Court cannot possibly attain the same detailed familiarity with the cause. Nor can it frame at long distance, with the same assurance, a decree adequate for the necessity."

Indeed, whether divestiture or dissolution should be ordered in a particular case is peculiarly a subject for the District Court's discretion, involving as it does an appraisal which the trial court is obviously in a better position to make than an appellate court.

(1) The Facts:

The following uncontroverted facts in this proceeding establish the inappropriateness of plant divestiture:

1. While both monopoly and attempt to monopolize were charged, the District Judge refused to find any violation of Section 2 of the Act.

2. There is no evidence that du Pont illegally acquired titanium pigment plants or the assets or business of any titanium pigment manufacturer. Du Pont's only acquisition was made to enable its entry into the business, and long before it is even claimed to have entered the combination.

3. Du Pont is not the largest producer of titanium pigments in the United States. As of the date of the decree du Pont manufactured and sold only 35.4% of the titanium pigments made and sold in the United States.

4. In addition to du Pont there are three other manufacturers of titanium pigments doing business profitably in the United States: National Lead; Zirconium, a subsidiary of the Glidden Company; and Virginia Chemical Company, a subsidiary of American Cyanamid Company. All of these large and financially substantial companies will have access to du Pont's patented inventions.

5. Du Pont competes with these three manufacturers for customers through sales efforts and by improvement of quality and by development of new products. There is not now nor was there ever any price agreement, division of territory or allocation of customers as between the four United States competi-

tors. Additional competition is provided by substantial manufacturers of other forms of white pigment.

6. There is no evidence that du Pont ever refused to license its patents or technical information to any other existing or potential United States manufacturer of titanium pigments, and du Pont has no control over the supply of raw materials used in the manufacture of titanium pigments.

7. Throughout the period of the alleged combination prices have declined substantially.

8. Production of all manufacturers has increased consistently since the industry became established in 1931.

The facts summarized above are considered at greater length in our main brief in No. 91. They present a compelling picture of competition in the titanium pigment business within the United States and a complete absence of monopolistic combination.

The government says that du Pont's plants are "strategically located" (53), but gives no record reference for its statement; and it is indeed unsupported in the record. While the record does show that du Pont has two plants equipped to manufacture at least some of its line of titanium pigment products, it does not show any of the following as to du Pont's titanium pigment plants, or indeed as to the plants operated by National Lead:

1. The capacity of titanium pigments plants.

2. Whether the plants manufacture either pure titanium pigments or composite titanium pigments or both; and if the latter, in what proportion

3. Whether other products are manufactured in any of the plants.

4. The extent to which the du Pont plants, for example, are interrelated in their manufacture of titanium pigment products.

5. The effect that dismemberment or complete divestiture would or might have upon

(a) Cost of manufacture;

(b) Capacity to manufacture;

(c) Quality of products manufactured;

(d) Efficiency of operations;

(e) Ability adequately to serve the consumer.

6. The plant capacities of Zirconium and Virginia Chemical.

7. The plans of the four manufacturers for the increase or decrease of manufacturing capacity.

8. The relative efficiency of the two smaller producers; their comparative costs of production, etc..

9. Whether any other concerns are anxious or willing to enter the titanium pigment business.

The state of the record, which is suggested by the foregoing, reflects the primary purpose of the government to punish the defendants. The government was not interested and made no effort to bring before the Court economic data upon which a sound judgment might be made on the delicate questions of competitive balance, which any request for

divestiture relief suggests. *Indeed, it did not even seek findings on the divestiture issue.* Rather the government bluntly urged that both du Pont and National Lead be divested of all their plants (R. 178-179). This was the flat punitive position taken, and it was not until the Judge's views had been made clear (albeit tentatively) in the course of the discussion of the decree, that the government retreated to its present position—that one plant should be divested from each defendant. That position had evidently not been at all thought out.

Against this background, we may again consider du Pont's participation in the conspiracy here alleged. The only acquisition made by du Pont, that of Commercial Pigments, was made in 1931, substantially before du Pont is even alleged to have entered the conspiracy or combination. That acquisition was never criticized or put in issue at any stage of the case, for the very obvious reason that du Pont had not previously been engaged in the business at all and was only enabled to enter it by that acquisition, so that in effect the new concern was the same as the old.[18]

This case was only indirectly concerned with the domestic titanium pigment market. It involved almost entirely territorial cartel restrictions on foreign trade. And what du Pont was found by the Court to have done, was to have given an assurance to the Cartel on an international territorial question, and to have exchanged patents and technical information with National Lead. The decree enjoins against continuation of the territorial understanding and breaks down completely the patent ties between du Pont and

[18] Du Pont did not, however, assume the contractual obligations of Commercial Pigments, as du Pont acquired its assets only, for a consideration (FF 88, R. 300).

National Lead, at the same time making the patents available on reasonable terms to all applicants. The District Judge was conscientiously moulding his decree, subject to the law as theretofore settled by this Court, to a remedy of the evils which he himself found had existed.

(2) The Legal and Economic Principles:

Dismemberment or divestiture of plants is, of course, in the last analysis, merely another form of dissolution. Dissolution, while rarely ordered, has been utilized in the shaping of certain particular types of anti-trust decrees. Where violation arises out of an acquisition of plants or of competing units, or out of a tying together of different corporate interests through stock holdings or merger, the remedy of dissolution has been considered. These cases traditionally present the problem of breaking apart corporate or property aggregations which were in actual fact unlawfully created in whole or in part. Such integrations constitute illegal combinations, and the courts have been willing to utilize the drastic dissolution remedy as the only method of preventing a continuation of the actual violation. This is after all merely an application of the ultimately governing rule in all anti-trust relief,—as stated in the opening of the argument in the government brief and of this reply,—that the judgment must be moulded to the exigencies of the particular case.

The rule and supporting cases are set forth succinctly in the opinion of this Court in *United States* v. *Crescent Amusement Company*, 323 U. S. 173, 189:

> "Dissolution of the combination will be ordered where the creation of the combination is itself the violation."

Even in such instances, however, the courts have, because of the property rights necessarily involved and the obvious disservice which will result to the public from breaking up aggregations which have demonstrated their efficiency, cautioned against utilizing the remedy except where clearly required to prevent violation and to dissolve and neutralize the illegality. *Standard Oil Company of New Jersey* v. *United States,* 221 U. S. 1, 77; *United States* v. *Aluminum Company of America,* 148 Fed. (2d) 416, 446; *United States* v. *Pullman Company,* 53 F. Supp. 908. Indeed the language of the *Crescent Amusement* case suggests that a District Court is wholly without power to order divestiture against even a unified company whose existence is wholly lawful, a suggestion substantially reinforced by the fact that no court has ever exercised such power.

The government and the District Court clearly recognized on the trial below that the dissolution relief asked by the government in this instance would have gone far beyond anything that has been heretofore sanctioned. Thus, the following colloquy between the Court and government counsel appears at R. 1208:

> "The Court: * * * Here is what I want to know. I take it from your comment that there is no precise precedent in which a court has taken a corporation and split it in two, or in four, where that corporation had not illegally become the product of four or three or more units, That does not put you out of court. It may be there is no precedent, because the event has not occurred. You would be in worse shape if such events had occurred and the courts refused on principle to do it.

"You may argue that proposition, or argue that as a matter of reason and logic the court should do it; therefore that takes you back to the question, is there any case which says that it is the function of the court to create competition rather than to create opportunity for competition, or to eliminate the obstacles to competition.

"Mr. Dixon: Offhand I can give your Honor no such case. In other words, in that sense, we are here asking your Honor on the broad grounds of discretion, to exercise your discretion——

"The Court: You are dealing with a matter of relatively first impressions.

"Mr. Dixon: That is right, and that is our position here on this matter. * * *"

Nor is there any valid economic argument to support the government's novel contention. The government bases its economic argument upon phrases,—that National Lead and du Pont are "duopoly", and that "the defendants" control the industry (132-133). As to the first, the government ignores the other two already existing manufacturers, both of which are strong and vigorous. As to the second, it ignores the fact that the District Court refused to find "joint control", but expressly found control only when the defendants were added "together" through the agreements reached between them. The Court in its decree struck down these agreements. With the agreements gone, du Pont and National Lead each stand alone as independent concerns. They are no longer "together".

After suggesting that this case is "not unlike" the *Aluminum* case, 148 F. (2d) 416,—a proposition which is without support, as the Aluminum Company was a single integrated concern,—the government brief (133-134) indulges

in a veritable riot of speculation. It says that the defendants [*sic*] "will utilize to the fullest every advantage"; that they "*unquestionably*[10] will adopt policies designed to prevent outsiders from capturing any portion of the market"; that "the emergence of any, or at least substantial, competition within any foreseeable period is *unlikely*"; that "the existing industrial pattern will *probably* continue"; that "*economic studies* have demonstrated that when two great corporations completely dominate an industry there is *no incentive* for the two corporations to compete with each other"; that such control "*inevitably* has the same basic characteristics and the same ultimate effects as monopolization of an industry by a single corporation"; that "price uniformity resulted from the duopoly even though the lower court found no evidence of express agreement on prices"; that "without divestiture * * * the premium of 'price stability' becomes *a necessity* in the eyes of the management"; that "it ignores the realities *inherent* in the concentration of economic power possessed by these two defendants"; for their "course of conduct over a period of years is too long engrained in the business attitudes of the management"; and that "the titanium industry is only an isolated instance of the dangerous *trend* toward concentration of economic power in the hands of a few industrial giants".

Picking our way through this labyrinth of conjecture, we discern the following statements of supposed fact:

(i) there is price stability;

(ii) there is a course of conduct of these two defendants engrained in the business attitudes of the management;

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[10]Italics ours in these quotations.

(iii) price uniformity resulted from this duopoly.

These propositions are all definitely negatived by the findings and the record:

(i) There was no "price stability". The Judge found that there were "repeated reductions in the price of titanium pigments * * * and a very few increases" (FF 78, R. 290).

(ii) As to the "course of conduct * * * long engrained in the business attitudes of the management", the District Court found it to be one of competition which the record shows was "plenty tough" (R.1158).

(iii) Price uniformity, as we have already explained, is universal in economic experience when dealing in products that are sold, not to consumers, but to large manufacturers with expert buying departments. The judge expressly found, as the government recognizes, that there was no evidence that the prices were the product of agreement or collusion between National Lead and du Pont (FF 78, R. 291). The officials of the two companies, who took the stand and submitted themselves to cross-examination, testified that price announcements were not made concurrently (R. 1150) but rather that one party had to meet competitively any reduced price fixed by the other, and that there was no arrangement, agreement or understanding of any kind on the subject (R. 1077, 1168).

Essentially, the government's arguments are the general traditional arguments against bigness as suc' We see no need to take sides on this question. We leave that to Con-

gress, and wish to point out only that in this very case those arguments, whatever their validity, were vigorously urged before the District Court at the time divestiture relief was requested. If space permitted, we would like to set forth in full the colloquy between the Court and government counsel on this question which appears at R. 1194 to 1219. The District Judge showed himself learned in economic theory and conscientiously aware of the social implications which necessarily derived from a Sherman Act decree. He considered the government's economic arguments at length. His very questions, succinctly stated, and the responses he received from government counsel, show not only his awareness of the economic problems but the complete inability of fitting the government's economic theories to the law and facts of this case. For example (R. 1212-18):

> "The Court. * * * why should not we take advantage of the circumstances here in making our choices? We have four corporations. Why should not we say '* * * That is much better than if we only had one. It has solved one of our problems. That monolith has been broken into four; two big and two little ones. We do not know which is better. We do not know the optimum size for competition. Here we have an opportunity for genuine experimentation; two big ones and two little ones. All we want to make sure is that there is no deal inside here which would destroy the effectiveness of the competition and we want to make sure that in future the door shall not be closed as it was in the past, and we want to make opportunity free.' * * *"

* * * * * * * *

> "The Court. Then you come to the problem of where should you stop. Clearly, if we had ten or

twelve corporations, we might have more competition than if we had four or six. Yet you do not suggest formation of ten or twelve because you think that would be an unreasonable fragmentation of the situation we have here. Why is not four an adequate fragmentation, and why is six so much superior to four when you have the advantage that the four are available breathing institutions, whereas the six you would have a situation where at least four of them would be newly born institutions?"

*   *   *   *   *   *   *   *

"The Court. * * * does it follow that little Virginia Chemical cannot effectively compete with big du Pont, assuming that it was under no obstacles? Is that the fact? I mean I do not know. I have not read any economists who say that such is the fact. I have read some professors who say that but I have not seen that. Isn't it true that little corporations efficiently managed can effectively compete with big corporations?"

*   *   *   *   *   *   *   *

"The Court. * * * Is there anything to indicate the consumer cannot get at least as efficient service out of the little corporations as well as the big ones?"

*   *   *   *   *   *   *   *

"The Court. What I am trying to get at, if we are going to have a check-up that will limit size, as such, maybe the Congress should do that directly and not have equity courts determining what the optimum size should be for a competing business. I don't know the solution. I do not know that the courts are qualified to find the answer to it."

*   *   *   *   *   *   *   *

"The Court. * * * let us suppose that Standard Oil acquires one of those companies and the other company is acquired by a new outgrowth of.

small private entrepreneurs: Standard Oil has a large chemical division, and great big laboratories and so on, and unlimited sources of capital and pretty soon it has extended its competitive capacity to three or four times its present size and it then occupies eighty or ninety per cent of the field. * * *"

* * * * * * * *

"The Court. Just let us suppose you had furious competition. I am assuming that the five other companies that will emerge out of this reorganization would be of Simon pure character and all be staffed by ex-officers of the Department of Justice with an eye single to the preservation of the pure competitive system. Now nevertheless Standard Oil has tremendous capacity and it achieves a condition of eighty per cent of the industry. Is there anything you can do about it under the law as it presently stands.

"Mr. Dixon. I would say no, your Honor."

* * * * * * * *

"The Court. * * * Assuming that the law is that in an appropriate case you can do what you say should be done here, is this the kind of a case in which that principle should be applied? In other words, what are the criteria when the shrinking down should be done as you suggest?

"Mr. Dixon. To specifically answer your question on that point of the case, we submit that it should be done where the obvious position in the industry of the companies involved is such that that fact in and of itself might reasonably tend to deter other companies from coming into the industry or new capital from coming into that industry.

"The Court. Now let us see. Let us hold on a minute. Let us suppose that instead of two companies which we are now dealing with, this was a

combination of the four or five big and powerful enterprises, and they had jointly dominated the industry in the sense that those five occupied the fields to the extent of ninety per cent of the consumed products. Now you break up the combination. You sever the bonds which unite those five. There is no doubt that they had grown big, powerful and rich by virtue of illegal law violation. Would you say that in that case we should shrink each of the five down because in view of the magnitude of those five the chances of new competitors entering the field are not as good or at least you surmise they are not as good, as they would be if each of those five was shrunken down to half its size?

"Mr. Dixon. If you had those five companies in the industry and they were approximately on an equal basis as far as ability to compete in the sense of productive capacity and so on was concerned, customers and position in the industry, I would say that would be satisfactory, the object being to create——

"The Court. Competition?

"Mr. Dixon. That is right.

"The Court. What principle of law. or what rule of economics is there which suggests that competition among five is necessarily superior to competition among two?

"Mr. Dixon. None, your Honor."

(Page 1262 of the Record.)

Apart from these considerations, the government's suggestion that there is something implicitly illegal in du Pont owning and controlling a productive capacity for titanium pigments representing approximately 35% of the

whole,[20] an amount less than its percentage before 1933, finds no support in the decisions of this Court. As Justice Cardozo stated in *United States* v. *Swift & Co.*, 286 U. S. 106, 116:

> "Mere size * * * is not an offense against the Sherman Act unless magnified to the point at which it amounts to a monopoly * * *."

This language was cited with approval in the recent *Aluminum* decision by Judge Hand, who went on to point out that under the decided cases it is doubtful whether 60% or 64% is sufficient to establish monopoly, and that "certainly 33% is not enough". Reflecting this same view are the decisions of this Court, which has refused, after consideration, to order dissolution even where a showing of violation of the Act, accompanied by a substantial percentage of market control, is indubitably established. In *United States* v. *United States Steel Corporation,* 251 U. S. 417, a corporation controlling approximately 50% of the steel industry was held not to be in violation of the anti-trust acts and dissolution was refused. Again, in *United States* v. *International Harvester Company,* 274 U. S. 693, the Court refused to grant further relief upon a showing by the government following a consent decree that the defendant still controlled 64% of the United States market, which was charged to constitute a monopoly and restraint

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[20]The government, by its erroneous statement that newcomers or competitors are presently without the benefits of an expanding demand, implies that such position as du Pont now enjoys is apt to be frozen because newcomers would be faced by a saturated demand and capacity in the defendants to supply it. In fact, however, in spite of constant efforts to meet demand, the condition of the industry is one of constantly increasing demand requiring new capacity (Ex. R. 4397-8, R. 1161-5).

of trade. The lower courts have also acted consistently with these decisions in refusing to order dissolution, in spite of proof that substantial market control existed.

There are numerous other cases to the same purport, to-wit: *Standard Sanitary Manufacturing Company* v. *United States*, 226 U. S. 20; *United States* v. *Keystone Watch Case Company*, 218 Fed. 502 (E.D. Pa.), app. dism. mo. United States, 257 U. S. 664; *United States* v. *New England Fish Exchange*, 258 Fed. 732 (D. Mass.); *United States* v. *American Can Company*, 230 Fed. 859 (D. Md.), 234 Fed. 1019 (D. Md.), app. dism. mo. United States, 256 U. S. 706; *American Press Association* v. *United States*, 245 Fed. 91 (C. C. A. 7th). In all of these cases units of combinations found to be in violation of the Sherman Act and constituting substantial proportions of the total capacity, often in excess of 50%, have not been subjected to divestiture of physical property in any form.

Finally, we will deal briefly with the only other argument seriously advanced on the divestiture issue by the government. This is the contention that Congress has not authorized District Judges to enter regulatory decrees in Sherman Act proceedings, and that the District Judge accordingly should have simply entered an order divesting du Pont of at least one of its plants (140). We will not burden this brief with reference to numerous District Court decisions in anti-trust cases which are far more regulatory and complex than the decree here. District Judges, with the full approval of this Court, have consistently undertaken to regulate aspects of the business of concerns found in violation of the Act, and this has been traditional in the judicial administration of the Act. In fact, the government itself has frequently been party to just such decrees, as will be

found from an examination of numerous recent consent decrees.

Moreover, the notion that divestiture or plant dismemberment requires less regulatory action than the present decree is certainly difficult to comprehend. Quite the contrary is the case. The District Judge in fact recognized the administrative and regulatory difficulties which the government's proposal created when, in the discussion of the proposed decree, he said at R. 1206:

> "But have we gotten to the point where an equity court has to authorize stock issues and formulate capital structures and arrange bond issues and stock issues and determine their relative amounts and select boards of directors and then, having created business entities, order them to go into the market and compete?"

Respectfully submitted,

WM. DWIGHT WHITNEY,
Counsel for Appellee E. I. du Pont de Nemours and Company,
15 Broad Street,
New York, N. Y.

GERHARD A. GESELL,
JOHN LOGAN O'DONNELL,
NESTOR SHEA FOLEY,
OSCAR A. PROVOST,
JOHN HANCOCK,
Of Counsel.

January, 1947.

APPENDIX A

Correspondence Between National Lead and Du Pont

June 4, 1946

Mr. J. F. Daley, General Manager
Pigments Department
E. I. du Pont de Nemours & Company
Wilmington, Delaware

Dear Mr. Daley:

We have given careful consideration to the matter of compliance with the directions of the Decree of October 11, 1945, with regard to granting licenses under titanium patents. We have concluded to proceed in this manner:

We shall offer to grant licenses under our patents, as defined in Paragraph 4 of the Decree, at uniform reasonable royalties as follows:

1. In the case of any applicant having no patents demanded by either National Lead Company or Titan Company, Inc., under Paragraph 7 of the Decree, either

   (a) a royalty at the rate of one per cent (1%) of the value of the applicant's production based upon the published carload prices for the grades of pigments manufactured under the patents; or

   (b) a single royalty payment deemed to approximate the total value to the applicant of the patents of National Lead Company and Titan Company, Inc., as so defined.

2. In the case of any applicant having patents demanded by either National Lead Company or Titan Company, Inc., no royalty in exchange for a license under applicant's patents.

It is recognized that any arrangements made for licenses in accordance with the foregoing may be modified to conform to or as may be permissible under the decision of the Supreme Court on the pending appeals from the above mentioned Decree.

Yours very truly,

C. F. Garesche
Manager

June 14, 1946

Mr. C. F. Garesche
Manager, Titanium Division
National Lead Company
111 Broadway
New York 6, New York

Dear Mr. Garesché:

This will acknowledge and thank you for your letter of June 4th, advising of the procedure which the National Lead Company and Titan Company, Inc. have adopted for licensing the TiO_2 patents owned by each under the Titanium Decree.

As you know, Mr. Kaegebehn had previously informed us that National Lead would desire licenses under du Pont patents. Since we also wish to acquire licenses under National's patents, it would appear that you consider us to be under Category 2 of your letter. However, licensing on a royalty-free exchange basis does not appear feasible, nor is it acceptable to us. In our view, the royalty rate is dependent upon the importance of the patents under which each party will become licensed. We do stand ready to undertake negotiations for effecting the desired grants and on a basis which is consistent with the terms of the decree.

If, therefore, you will set a date for a meeting, we will be glad to have our Messrs. Hancock and Booge meet and confer with your representatives and negotiate terms of license.

Very truly yours,

J. F. Daley

June 28, 1946

Mr. C. F. Garesche
Manager, Titanium Division
National Lead Company
111 Broadway
New York 6, New York

Dear Mr. Garesché:

Supplementing our letter of June 14, 1946, which replied to yours of June 4, 1946, we now write to notify you that, pursuant to the provisions of Paragraph 7 of the Final Decree, dated October 11, 1945, in United States v. National Lead, et al., we wish to acquire a non-exclusive license effective commencing July 11, 1946 and terminable by us upon reasonable notice, under each of the following National Lead Company United States patents:

Washburn	1,889,027	dated	Nov. 29, 1932
Washburn, et al.	2,222,385	"	Nov. 19, 1940
Cole, et al.	2,280,795	"	Apr. 28, 1942

We also wish to inform you that we do not expect to operate under Washburn No. 1,889,027 for more than a period of six months. The Washburn No. 2,222,385 and Cole, et al. No. 2,280,795 relate to but a portion of our present pigment production.

Accordingly, we would appreciate receiving from you at an early date license agreement in form for our execution.

Yours very truly,

J. F. Daley
General Manager

July 8, 1946

Mr. J. F. Daley, General Manager
Pigments Department
E. I. du Pont de Nemours & Company, Inc.
Wilmington, 98, Delaware

Dear Mr. Daley:

We have your letter of June 28 supplementing your letter of June 14, 1946 and note that you desire to acquire a non-exclusive license effective July 11 under certain National Lead Company patents.

You must realize that the proposals contained in your letter of June 14 and 28 are not responsive to the offer described in our letter of June 4, which was based upon careful consideration of the decree dated October 11, 1945. In our opinion it is impossible to evaluate each patent as suggested in your letter of June 14. In the case of du Pont and other manufacturers having patents desired by our company, we think the terms and purpose of the decree can be carried out only by a royalty free exchange; in the case of manufacturers having no patents, licenses must be granted at a royalty which will clearly permit competition.

Consistent with the foregoing, we desire licenses from and after July 11 under the du Pont patents described in paragraph 4 of the decree.

Very truly yours,

C. F. Garesche
Manager

Mr. C. F. Garesche
Manager, Titanium Div.
National Lead Company
111 Broadway
New York City, N. Y.

July 11, 1946.

Dear Mr. Garesche:

In reply to your letter of July 8, we must again state that we consider a royalty-free exchange wholly inconsistent with the decree of October 11, inasmuch as such an exchange would result in a continuation of the very agreement which the court has ordered cancelled. We are, however, prepared to license you under the patents described in paragraph 4 of the decree—as to which your letter indicates you desire licenses—at a royalty rate of two per cent of the value of your production based upon your published carload prices for all grades of pigments manufactured under any of these patents. We feel that this rate of royalty, which is consistent with our other existing licenses, is entirely reasonable and, to use your phrase, "will clearly permit competition."

In our letter of June 28, we requested a license from you under only three specified patents. Certainly an evaluation of these three patents presents no serious problem, and we stand ready to pay whatever reasonable royalty rate is established by you consistent with the decree for the licensing of these patents.

Inasmuch as we are entitled to a license under the patents in question pursuant to the terms of the decree, we propose to proceed on the assumption that we are licensed under the patents and, of course, will make retroactive to today's date whatever royalty is finally determined upon.

Yours very truly,

J. F. Daley
General Manager

September 13, 1946

Mr. C. F. Garesche
Manager, Titanium Division
National Lead Company
111 Broadway
New York 6, New York

Dear Mr. Garesche:

Confirming what was indicated generally by Messrs. Provost and Gesell in their recent conferences with Messrs. Williamson and Webster with respect to the respective requests of du Pont and National Lead for licenses under each other's titanium pigment patents, please be advised as follows:

1. Pursuant to paragraph 7 of the Final Decree dated October 11, 1945, in *United States* v. *National Lead, et al.*, we hereby offer to grant to you a non-exclusive license, terminable by you at will, under such of our patents and patent applications listed in Section VI of the Appendix to such Final Decree as you desire, at a non-cumulative royalty of 2% of the value of your production of pigments manufactured under the licensed patents, such value to be based on your published carload prices for the particular grades of pigments involved.

2. Also pursuant to such Final Decree, we hereby request that you grant to us a non-exclusive license, terminable by us at will, under the following United States Letters Patent:

Washburn . . . . No. 1,889,027
Washburn . . . . No. 2,222,385
Cole et al . . . . No. 2,280,795

We offer to pay for such license a non-cumulative royalty of 1% of the value of our production of pigments manufactured under the licensed patents, such value to be based on our published carload prices of the particular grades of pigments involved.

We understand you contemplate bringing this matter before Judge Rifkind in the near future, since you are not willing to accept a license from us on the terms outlined above or to license us under your specific patents on the basis we have requested. As we have advised we consider your proposals for licensing prohibited by the decree and, for this as well as other reasons, they cannot be accepted by du Pont.

Very truly yours,

J. F. DALEY
General Manager

September 18, 1946

Mr. J. F. Daley, General Manager
Pigments Department
E. I. du Pont de Nemours & Company,
Wilmington, 98, Delaware

Dear Mr. Daley:

Your letter of September 13th addressed to Mr. Garesche has been received.

Mr. Garesche is out of town, but as soon as he returns, it will be brought to his attention.

Yours very truly,

SECRETARY TO MR. GARESCHE

APPENDIX B

Consent Decrees Containing Reasonable Royalty Clauses

The following consent decrees are reported in C. C. H. Federal Trade Regulation Service:[1]

(1) Before the *Hartford-Empire* case

Par. 52,768. *United States* v. *Standard Oil Company* (*New Jersey*) D. N. J. March 25, 1942.

"IV [Activities Enjoined]

"The defendants * * * are * * * directed and required:

[Issuance of Licenses and Sublicenses]

"(5) to issue licenses or sublicenses, or to direct and compel the licensing agency to so do, on the request of any person or corporation, under the S. I. G. patents and under the Jasco patents, without restriction as to the products to be treated or manufactured or as to the technique to be employed or as to the use to be made of such patents, or as to the price to be charged for any of the products manufactured under such licenses or sublicenses, and without any other restriction whatsoever, save that *reasonable royalty rates*[2] may be charged under said licenses or sublicenses in connection with operations after the present emergency, for the duration of which said licenses or sublicenses shall be royalty free; * * *." (Certain provisos follow.)

[Furnishing "Know-How" with Patent License]

"(6) to furnish with all licenses issued under paragraph (5) above know-how without compensation therefor,

[1]We have reason to believe that these cases are examples only, and that there were additional such cases, unreported.

[2]Italics in quotations are ours.

save that the cost of furnishing know-how may be recovered from the licensee, which cost shall include the value of the time spent by defendant's personnel in furnishing said know-how, and save that a *reasonable compensation* may be received for know-how furnished with licenses under Butyl patents."

[Revision of Existing Patent Licenses to Conform to Royalty Provisions of Decree]

(7) This paragraph provides for the above.

[Requirements with Respect to Patents and Licenses under Other Agreements]

(8) With regard to patents title to which or the right to license thereunder is held under the terms of certain named agreements defendant is required for the present emergency to issue licenses to applicants in accordance with the terms of such agreements and after the termination of the present emergency to issue licenses for which *reasonable royalty* rates may be charged.

Par. 52,927. *United States* v. *Standard Oil Company (New Jersey)* D. N. J. Civil Action No. 2091. April 7, 1943.

This decree supplemented the above decree by providing that the compulsory licensing provisions of that decree apply to catalytic refining patents although a *reasonable royalty* may be charged.

Par. 52,777. *United States* v. *General Electric Company, Westinghouse Electric & Manufacturing Company,* D. N. J. No. 1364. April 10, 1942.

"IV [Free Licensing of Patents and Conditions Therefor]

"Defendant Westinghouse, its directors, * * * are * * * required to issue non-assignable licenses

or sub-licenses upon the request of any person under all patents relating to lamps, lamp parts, or lamp machinery, royalty-free and without restrictions to the products to be treated or manufactured, or as to the technique to be employed or as to the use to be made of such patents, or as to the price to be charged for any of the products manufactured under such licenses or sublicenses, and without any other restriction whatsoever, save (1) that a *reasonable royalty* may be charged under said licenses or sublicenses if the licensee or sublicensee does not agree reciprocally to license the defendant Westinghouse upon a royalty-free basis * * *."

Par. 52,776. *United States* v. *Aluminum Company of America,* S. D. N. Y. April 15, 1942.

[Charge of Royalties Permitted at Termination of "Present Emergency"]

"(b) At the termination of the 'present emergency,' each of the corporate defendants and its affiliates shall, upon the written request of any applicant, grant to such applicant, including any of the defendants herein, a non-exclusive, non-assignable right to use, manufacture and sell under any and all 'production patents' where the patent or application therefor was owned by it on the date of the entry of this decree without any conditions or restrictions whatsoever, except such suitable restrictions as may be necessary pursuant to U. S. C. Title 35 Para. 49, 44 Stat. 1058, save that a *reasonable and non-discriminatory royalty* may be charged therefor * * *."

Par. 52,888. *United States* v. *American Bosch Corporation,* S. D. N. Y. Civil Action No. 20-164. December 29, 1942.

IV [Unrestricted Patent Licenses to be Granted]

"Defendant American Bosch is hereby ordered and directed:

"A. In connection with:

"(1) All United States letters patent issued on or before the entry of this judgment,

"(2) All applications for United States letters patent filed on or before the entry of this judgment and all patents issued pursuant to such applications, and

"(3) All divisions, continuances, renewals, reissues, or extensions of the patents and applications described in Clause (1) and in Clause (2), owned or controlled by it or over which it has or may have the required legal power and to the extent to which it has such power, to grant to any applicant therefor absolutely unrestricted licenses or sublicenses to manufacture, use, and sell without any conditions except that *a reasonable and nondiscriminatory* royalty may be charged in connection with operations after the present emergency, for the duration of which such licenses or sublicenses shall be royalty free, * * *." (Certain provisions are made to require payment of *reasonable royalty* by non-reciprocating licenses whether during emergency or thereafter and in a certain situation not to require Bosch to license such non-reciprocating licensee at all.)

(2) After the *Hartford-Empire* Case.

Par. 57,336. *Crosby Steam Gage & Valve Company* v. *Manning, Maxwell & Moore, Inc. United States, Intervenor-Defendant.* D. Mass. Civil Action 2267. Feb. 1, 1945.

"5. Crosby Steam Gage & Valve Company * * * is required

* * * *

"(b) to issue to any applicant, *at a reasonable royalty,* and without any restriction whatsoever, for the period, if any, included between the end of the present emergency and January 14, 1947, a license to make, use and vend the embodiments of the inventions covered by any of said Crosby relief valve patents which may be unexpired during such period."

(Crosby relief valve patents are certain patents issued in 1928 and 1930, and reissues, extensions and renewals thereof).

Par. 57,492. *United States* v. *American Air Filter Company, Inc.*, W. D. Ky. Civil Action No. 574. Sept. 10, 1946.

"IV [Licensing Directed]

"Each of the defendants is hereby ordered and directed:

* * * *

"(b) to grant to any applicant making written request therefor a non-exclusive license to manufacture, use and sell under any one or more of the United States Letters Patent and the patents issued upon applications for United States Letters Patent, the patent numbers and application numbers of which are listed in Schedule C attached hereto * * * with-

out any condition or restriction whatsoever, except that *a reasonable and non-discriminatory royalty* may be charged * * *."

"(c) to grant to any applicant making written request therefor, to the extent that the defendants now have or acquire the power to do so, a non-exclusive grant of immunity from suit under any foreign patents or patents issued on foreign applications for patents, corresponding to the United States Letters Patent or applications for patents listed in Schedule C to import into and sell or use and to have imported, sold or used in any country products made in the United States, without any condition or restriction whatsoever, except that *a reasonable and non-discriminatory royalty* may be charged * * *."

(Patent or patent application includes continuations, renewals, etc.)

Par. 57,444. *United States and Alien Property Custodian* v. *Bendix Aviation Corporation,* D. N. J. Civil 2531. Feb. 13, 1946.

"V [Patents to Be Transferred to Alien Property Custodian; Grants of Immunity; Licensing].

"Bendix, its officers, directors, * * * are ordered and directed:

* * * *

"(C) To grant to any applicant making written request therefor, to the extent that Bendix and its subsidiaries now have or acquire the power to do so, a non-exclusive license, sub-license or immunity to manufacture, use and sell under any one or more of the United States Letters Patent and the patents issued under applications for United States Letters Patent, the patent numbers and application numbers

of which are listed in Schedule B attached hereto * * * without any condition or restriction whatsoever, except that *a reasonable and non-discriminatory royalty* may be charged * * *.

"(D) To grant to any applicant making written request therefor, to the extent that Bendix and its subsidiaries now have or acquire the power to do so, a non-exclusive grant of immunity from suit under foreign patents or patents issued on foreign applications for patents, corresponding to the United States Letters Patent or applications for patents listed in Schedule B to import into and to sell or use, and to have imported, sold, or used, in any country products made in the United States, without any condition or restriction whatsoever except that *a reasonable and non-discriminatory royalty* may be charged, * * *."

(Patent or patent application includes continuations, renewals, etc.)

Par. 57,456. *United States* v. *The Diamond Match Company,* S. D. N. Y. Civil No. 25-397. April 9, 1946.

"14. Defendant The Swedish Match Company is directed to grant to any applicant therefor a non-exclusive, non-assignable and unrestricted license to make, use and sell, save for *a uniform, reasonable royalty,* under any patented invention of The Swedish Match Company, its subsidiaries, successors, assigns or nominees, conceived within five years after the date of the entry of this judgment relating to everlasting or re-ignitible matches. * * *"

Par. 57,448. *United States* v. *General Electric Company, Corning Glass Works*, D. N. J. Civil Action Nos. 1364 and 2590. March 7, 1946.

"VIII Defendant Corning be and hereby is directed to grant to any applicant making written request therefor a non-exclusive, non-assignable and unrestricted license, save for and at *a uniform reasonable royalty,* under any or all future patents to make or have made, use and sell glass bulbs, tubing, cane or lamps, and to make or have made glass machinery, and to use such machinery for the production of glass bulbs;" (not required to grant such licenses to defendant General Electric Company, however).

(Future patents includes only those applied for on or before January 1, 1950 and all divisions, continuations, extensions or reissues thereof.)

Par. 57,489. *United States* v. *Libbey-Owens-Ford Glass Company*, N. D. Ohio Civil Action No. 5239. Sept. 5, 1946.

"VI [Licensing Directed]

"Defendant Corning be and hereby is directed to grant to any applicant making written request therefor a non-exclusive, non-assignable and unrestricted license, save for and at *a uniform and reasonable royalty,* under any and all of the patents enumerated and described in the schedule hereto attached and marked 'Schedule A,' to use the inventions of said patents for the production of flat glass. Said patents have not heretofore been used in the flat glass industry or licensed by Corning for use in said industry. * * *"

Par. 57,498. *United States* v. *Owens-Illinois Glass Company,* N. D. Cal. Civil Action No. 25861-C. Sept. 18, 1946.

"V. [Granting of Licenses Ordered]

"A. Defendant Owens by and hereby is directed to grant to any applicant making a written request therefor a non-exclusive, non-assignable and unrestricted license, save for and at *a uniform reasonable royalty,* under any and all existing patents, to make or have made, use and sell vacuum-closing machinery for vacuum packing in glass containers and sealing the same with closures. * * *"

(Existing patents means all presently issued U. S. letters patent owned or controlled by defendant Owens or under which Owens has power to issue licenses, consisting of certain named patents.)

APPENDIX C

Supplemental Criticisms of the Handling of the Facts in the Government Brief

(1) The government has frequently followed the practice of citing and purporting to paraphrase a finding, while simply omitting whatever word or phrase there was in the finding favorable to du Pont.

Thus, the government, in its paraphrase (5-6) of the conclusory finding 95 omits sub-paragraph 10 (R. 305), evidently because that was confined to National Lead. Similarly, in dealing with the 1933 patent cross-licensing agreement between du Pont and National Lead (29-30), the government omits the Judge's finding that one purpose was

> "To settle the existing and potential patent disputes and to promote a more rapid development of the titanium business and a greater freedom of action for the parties under titanium pigment patents and developments" (R. 293).

Other illustrations are more hidden. Thus, the government says that "the defendants have imposed restrictions on resales" (5). This comes from the Judge's sub-paragraph 4 (R. 304), and just omits the phrase that "except to the extent found in Finding 93, the evidence does not establish as to DP that such restrictions were the result or effect of its agreement with NL or Tinc". Finding 93 in turn relates only to the du Pont-Tinc licensing agreements of 1940 and 1941, and therefore does not relate at all to the 1933 agreement or to any direct relationship between du Pont and National Lead.

(2) The government, although purporting to base its statements on the findings, has not hesitated to make other

statements of facts which were not found. The government sometimes makes statements of fact which were indeed found to the contrary.

An example of a fact found to the contrary is where the government says by innuendo that du Pont and National Lead had agreed to maintain Canadian prices (21). This precise contention was the subject of debate before the District Judge himself at the hearings on the findings; and he expressly refused so to find (*Cf.* FF 57, R. 269).

An example of a fact not found is where the government says that du Pont and Imperial Chemical Industries of England had an agreement to use a certain Canadian company as the proper vehicle for cooperation in Canada, and gives as a record reference R. 958 (20). As shown by Ex. R. 1508, titanium was in fact *excluded* from the du Pont-Imperial Chemicals agreement.

(3) The government has sometimes taken perfectly innocent practices and referred to them as if they were themselves badges of illegality.

An example is the statement (36) that National Lead and du Pont have cooperated to furnish to each other the raw material ilmenite and titanium pigment products, as if this were a restraint of trade. In the first place, the District Judge expressly found that there was no restraint of trade in ilmenite (FF 94, R. 303). In any event, here was a simple purchase and sale. Du Pont would not have improved competitive conditions in the industry by refusing to sell to National Lead what the latter needs to compete, or *vice-versa*.

(4) The government has prejudiced du Pont by citing findings against it which were expressly confined to National Lead.

An example occurs where the government is charging du Pont and National Lead with concertedly exercising the patent rights to dominate an industry and exclude competition (61). Three record references are given,—272, 291 and 303-6. 272 and 291 deal exclusively with National Lead and make no reference to du Pont. 303-6 is merely the ultimate Finding 95.

The free and easy way in which the facts are dealt with, when the government is in full spate of argument, is illustrated in this same sentence (61), where the government goes on to say that "the defendants" have granted licenses to American Zirconium and Virginia Chemical, when, of course, it was only du Pont that licensed Virginia Chemical.

What the government in its anxiety to attack du Pont has overlooked, is that we ourselves were not parties to, but rather intended victims of, the illegal combination. There was no difference between our position and that of any other potential American entrant into the industry (Zirconium, for example), except that we refused to accept the restrictive "principles" of the cartel and that Zirconium did accept them.

Another extraordinary example of the myopia which arose out of the government's jumping to the conclusion that du Pont was in the combination, is found in its sentence (30) that:

> "The agreement [of 1933 to which du Pont was a party] in substance coincided with the 'licensed field' of the 1920 agreement * * *."

Again, we welcome the government's point. We would urge the Court to read the definition of the "licensed field" in the 1933 agreement side by side with the definition of the 1920 cartel agreement. They appear respectively at

R. 74 and Ex. R. 2. We submit that their utter dissimilarity in draftsmanship proves either that the draftsman of the 1933 agreement never saw the 1920 agreement [which we believe to be the true fact, and which we are entitled to treat as the true fact in the absence of any evidence to the contrary by the government], or, alternatively, that the draftsman of the 1933 agreement expressly rejected the draftsmanship of the 1920 agreement. Certainly, if du Pont by the 1933 agreement were being drawn within the cartel and within the famous "principles" of the 1920 agreement, as the government would like to imply, it could not have played so fast and loose with the draftsmanship of the master document of the cartel.